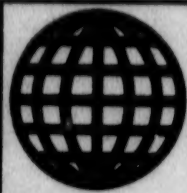


JPRS-CAR-89-016  
27 FEBRUARY 1989



**FOREIGN  
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# ***JPRS Report***

## **China**

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# China

JPRS-CAR-89-016

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27 FEBRUARY 1989

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## GENERAL

### Third World Debt Situation Eased With Assistance of Creditor Nations

40050190 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 21, 1 Nov 88 pp 24-25

[Article by Huang Pengnian 7806 1756 1628: "New Trend Toward Easing the Debt Situation"]

[Text] There is new movement toward easing the international debt situation.

Since the latter part of September, news has continued to come out of international financial circles that may bring relief to the debt crisis.

On 21 September, Brazilian President Jose Sarney announced that Brazil has called off the moratorium, in effect since February, on interest payments due foreign commercial banks. The next day Brazil and the creditor commercial banks reached a host of agreements to resolve the debt situation: The creditor banks agreed to grant Brazil \$5.2 billion in new loans to help pay interests due; payment terms of \$62 billion of Brazil's \$67 billion medium- and long-term loans have been extended for another 20 years; \$15 billion of the Brazilian debts have been converted to bonds and risky equities.

On 24 September, finance ministers from the United States, Britain, France, Japan, Italy, West Germany, and Canada announced that the seven nations had reached a unanimous agreement to relieve the burden of the heavily indebted nations, particularly the African nations. The measures they have adopted include forgiving one-third of the debts, lowering the interest rate to 3.5 percent or one-half of the original rates, or extending the loan term to more than 25 years.

On 28 September President Barber B. Conable Jr. of the World Bank announced that the World Bank would grant Argentina \$1.25 billion in special loans to help her pay interest due on existing loans, among other things.

This news indicates that there is relief for the world debt crisis which has plagued nations for years.

People will recall the Mexican Government's announcement on 12 August 1982 of its inability to repay its foreign debts and the world debt crisis that followed. Five years later, on 20 February 1987, Brazil declared a interest-payment moratorium to avoid the recurring foreign exchange reserve crisis because of the nearly \$10 billion interest payments each year. Argentina, whose debt level is second only to Brazil and Mexico, immediately voiced her support of the Brazilian position and was prepared to do the same. All of a sudden the world debt crisis flared up again.

To prevent a "domino" effect, Chase Manhattan Bank and other creditor banks announced in succession that they would boost reserves against delinquent loans and were prepared to write off the Brazilian loans as "bad debts," warning that there would be no more new loans until old loans were repaid. Thus negotiations to cure the debt problem stalled, and all loan transactions ceased.

The new agreements reached between Brazil and her creditor banks announced an end to the deadlock. The worrisome debt crisis has taken a turn for the better.

Despite all this, the international debt situation is still serious. According to international financial institution statistics, between 1982 and 1987 developing-nation debts have increased 47 percent, topping \$1.217 trillion at the end of 1987. This equals two-fifths of the total domestic output value of the developing nations. Last year, the debtor nations paid as much as \$120.4 billion in principal and interest. In the last 6 years, long-term debts owed to the commercial banks have increased 58 percent, topping \$427 billion last year. The biggest debtor regions are Latin America and Africa. The Latin American debt is in excess of \$410 billion. Between 1982 and 1987, the ratio of total principal and interest payment to total export (that is, the debt servicing ratio) each year has risen from 270 percent to 350 percent. Africa's total debt has topped \$218 billion, more than one-half of the combined GNP of the African nations in one year, and the poor sub-Saharan nations account for more than \$100 billion of the total debt, 85 percent of which have been borrowed by the governments. Since 1982, the annual debt to export ratio of the African nations has continued an upward spiral. Last year's debt servicing ratio has risen to 351 percent, up from 188 percent 5 years ago. It is estimated that because of the unstable dollar exchange and the rising interest rates, the developing nations' debt burden will continue to grow, and by the end of the century, the African nations' debt may reach \$550 billion.

The heavy debt burden not only jeopardizes the economic development of the debtor nations but also undermines the stability and development of the world economy, trade, and financial markets. Therefore, all concerned parties have been working hard to bring debt-relief to the developing nations.

As early as September 1985, former Treasury Secretary James A. Baker III proposed that international banks grant \$20 billion to the 15 biggest debtor nations over a 3-year period to help them develop the economy. The idea was to promote economic growth as a way to reduce the debt burden. But because the commercial banks were unwilling to extend any new loans, among other reasons, this plan has not been successful.

To prevent the debt situation from deteriorating, since 1986 the Western creditor nations and creditor banks and international banking institutions have developed new programs to resolve the debt situation. They include



turning the debts into negotiable securities, swapping loans for stocks, converting the loans to a different currency other than the dollar, lowering the interest rates, rescheduling the interest payments, rolling-over or refinancing the interests, capitalizing the interests, buying back some loans, and calling for the international bankers to extend more loans or intervene more actively. The debtor nations have proposed interest exemption or reduction or lengthening the loan terms. Some have even advocated a permanent moratorium. Among these suggestions, the most interesting, and one which has already made some headway, is the debt-for-equity swap, that is, debt capitalization.

The so-called "debt capitalization" works in the following way: the creditor bank or creditor nation sells the yet unpaid loans at a discount; investors who have purchased the debt instruments exchange them in the central banks of the debtor nations for local currencies at the fixed discount rates and purchase the stocks of corporations in the debtor nations, or put that money in some high risk investments somewhere.

This arrangement benefits both the creditor banks and the debtor nations. For the creditors, first, it strengthens their financial position; it gives them a chance to settle some previously questionable loan accounts and adjust their balance sheets. Second, it helps them avert total loss which could result if the debtor nations were forced to default on their loans. Third, it gives them a chance to make a profit through the investments. For the debtor nations, it reduces the debt burden and helps them reestablish their creditability; it increases foreign investments indirectly, promotes production, increases job opportunities, and facilitates economic growth. But it has its disadvantages: by converting the debt instruments to domestic currency, it increases the money supply and can trigger inflation; the increase in foreign-owned stocks may affect the profit of domestic enterprises; debt capitalization does not provide extra foreign funds, and therefore it adversely affects the in-flow of foreign capital. At present, because the debtor nations have imposed many investment restrictions on those who have bought the debt instruments, many investors are not enthusiastic about the debt-for-equity arrangement. Despite all these, debt capitalization has provided a solution for the debt problem.

Latin America has clearly made progress with its debt-for-equity swap. Based on incomplete data, \$4 billion of the \$66 billion Brazil owes to various commercial banks have been converted to equities. According to the president of Brazil's central bank, so far, conversion applications have topped \$21 billion. Because of the conversion of foreign debts into risky equities, Brazil's foreign debt has been reduced by \$6.5 billion so far this year. Chile has implemented the debt-for-equity plan since 1985, and to date, \$3.1 billion of her \$12.7 billion foreign debt owed to various commercial banks have been converted to equities. Since last year, Mexico has reduced her net obligations by \$1.1 billion via this method.

At present, around the world, other methods are being sought to ease the debt situation.

The United Nations Trade and Development Conference's annual report issued on 1 September of this year suggested that the banks forgive 30 percent of the debts of the biggest debtor nations. At the annual meetings of the World Bank and International Monetary Fund held in the latter part of September, Japan has made two debt-relief proposals: one, Japan will extend low-interest loans to the debtor nations via the Import-Export Bank; this money will not be restricted for use to purchase Japanese products. Two, some of the debts of the developing countries will be converted to long-term securities; these securities can be sold in the financial market, and the IMF will set up a special fund to guarantee these securities. Payment terms on other loans will be extended "under appropriate conditions." Meanwhile, West Germany has announced measures to forgive some developing-country debts and extend the repayment period and grace period. France has also indicated they would adopt further measures to reduce the debtor nations' burden. All these demonstrate that most Western creditor nations have assumed a positive attitude toward the debt-relief issue and have become more understanding toward the debtor nations. These will have a positive effect on easing the international debt situation.

**Ramifications of Warming Relations With Soviets**  
40050158b Shanghai SHIJIE JINGJI DAobao  
in Chinese 12 Dec 88 p 3

[Article: "Will Sino-Soviet Relations Progress Smoothly?"]

[Text] The deterioration of Sino-Soviet relations dragged on for nearly 30 years, and as far as the two countries are concerned it was entirely disadvantageous. The significance of the march from opposition towards normalization between China and the Soviet Union is no trivial matter and is bound to have an impact on international relations; at the same time it establishes a model for relations between socialist countries.

Qian Qichen [6929 0366 3819], China's Foreign Minister, visited the Soviet Union on 1-3 December and this is unquestionably a major event in Sino-Soviet relations.

This visit achieved positive results. At a press conference in Moscow, Qian Qichen stated that the process of normalizing Sino-Soviet relations had begun and with the political solution of the Campuchea question, differences between the two sides had been reduced and that high-level meetings between China and the Soviet Union might be held in the first half of next year. Shevardnadze also said that Soviet-Chinese relations are entering a realistic period. Local observers think that the Chinese side may talk in good faith this time, and that what they are saying is the most positive and optimistic in recent



years. Some think that the agreement reached by Gorbachev and Qian Qichen at the Sino-Soviet Summit Conference is an "historic reconciliation" between the two countries.

Sino-Soviet enmity lasted nearly thirty years and definitely was harmful to the two countries. Although the normalization of Sino-Soviet relations conforms to the fundamental interests of both sides, it is also dictated by the general situation. Since the beginning of the eighties, there has been some amelioration in Sino-Soviet relations, but the existence of the "three major obstacles" has still restricted development of relations between these two neighboring countries. Since this year, with the improvement of U.S.-Soviet relations, there has been a major relaxation in the international situation and objectively, this has also provided a favorable opportunity for Sino-Soviet relations to take a turn for the better.

Since taking office, Gorbachev has carried out a major reorganization of Soviet foreign policy and with a pragmatic foreign policy marked by "new thinking" has scored many points and taken the offensive not only in U.S.-Soviet relations but also in resolving and eliminating regional hot spots. Now to offset the impact of Soviet-U.S. relaxation, China has indicated a considerable flexibility on the Campuchean question. Recently, China has also indicated that once Vietnam withdraws from Campuchea, they will reduce their aid to Khmer Rouge, and feel that if the Khmer Rouge seize power again it will not be well received. Japanese figures think that the foreign ministers of the two countries have already breached the final gap in realizing a Sino-Soviet reconciliation.

Realizing a normalization of Sino-Soviet relations will benefit Gorbachev, and Gorbachev without a doubt may gain enormous prestige in Soviet history which will favor further promotion of his domestic reform. In addition, the newest developments in Sino-Soviet relations may add great luster to Gorbachev's trip to the United States this week so that in his talks with U.S. leaders, he may occupy a stronger position. The reconciliation with China also indicates that the Asian-Pacific policy pursued by Gorbachev is successful and will be favorable to improving Soviet relations with other countries in Asia.

The significance of the shift from opposition to normalization between China and the Soviet Union is no trivial matter, and this is bound to have an impact on international relations, especially in the Asian and Pacific region. In addition, the normalization of Sino-Soviet relations establishes a standard for relations between the socialist countries, with the Soviet Union finally recognizing the implications of equality in relations between countries, and this may have an impact on their relations between the Soviet Union and the countries of Eastern Europe.

In the early sixties, China used the expression "three feet of ice did not freeze in a day" to describe the differences between China and the Soviet Union. Conversely, melting three feet of ice will take more than a day, and the summit conference cannot resolve all the problems of China and the Soviet Union in the last thirty years. There is still a fairly long road to realizing true normalization between China and the Soviet Union and it requires less nonsense and more facts on both sides. Whether Sino-Soviet relations can develop smoothly will be a severe test of the policies of both sides.

**Application of Political Democracy to Modernization**

40050219a Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
5 Dec 88 p 1

[Article by Scientific Research Office, Beijing Institute For Social, Scientific, and Technical Development: "Political Modernization and Political Reform"]

[Text] The "First Session of the National Modernization Theories Discussion Meeting" under joint sponsorship of 20 units including the Beijing Institute For Social, Scientific, and Technical Development, was held in Beijing from 10 through 13 November 1988. More than 20 experts and scholars, including Yu Guangyuan [0060 0342 6678], Li Peng [7812 3403], Ge Yang [2047 2254], Yu Haocheng [0060 3185 2052], Su Shaozhi [5685 4801 2535], Feng Lanrui [7458 5695 3843], Yan Jiaqi [0917 1367 0366], and Wen Yuankai [3306 0337 0418], discussed modernization theories and the course of China's modernization. The several points of view pertaining to political modernization and political democracy that were discussed at this discussion meeting are summarized below.

**Further Thoughts on the Concept of Democracy**

Some comrades noted that western democratic theories have historically been divided into two branches. One branch is represented by Jean Jacques Rousseau, its central idea being that the minority should serve the majority. The second is represented by Charles Louis de Secondat Montesquieu, and holds that democracy can be realized only through the restriction of power by power. Democracy in a contemporary sense is made up of the two main principles given below, which substantively separate it from democracy in a traditional sense. One is that democracy has to protect individual rights and freedoms, including those of minorities. Democracy in which individual freedoms are not fully guaranteed is a long way from being modern democracy in a real sense. The other is the use of power to restrict power in order to prevent the growth of power from taking away citizens' rights and freedoms. Moreover, it is precisely these two points that should form the theoretical basis for political system reform.

**Urgency and Necessity for Political System Reform**

One point of view holds that in recent history, China has operated in a "strange circle," namely that reform has first required destruction of the old social order, so the process whereby the western system destroyed traditional authority was studied, but when upheaval became unavoidable, there was a reversion to the old authority, which was not completely eradicated. Such a reform was a combination of fixed revolutionary ideas and feelings of anxiety that produced a frame of mind of political romanticism. China's modernization is being carried out during a period of disruption when there is no middle

class. The simple transplanting of the western market mechanism and its concomitant political system can only create a complete economic and political slippage as a result of inability to find dynamic support. Such widespread mobilization from top to bottom in a succession of reform programs can lead to a full scale crisis during the 1990's.

The opponents' view holds that no experience with complete westernization exists in China, because China's political and economic systems are basically traditional. The situation of "10 full years of reform and opening to the outside world, with macroeconomic control occurring overnight" shows that during the process of shifting to a commodity economy and a competitive mechanism, centralized political power frequently poses obstacles. Excessively centralized authority that limits economic and cultural development makes political system reform imperative.

Proponents of new authoritarianism who attended the meeting maintained that the crisis was not created by the destruction of traditional authority, but rather that it appeared and tended to be strengthened during the traditional authority period. For this reason, there can be no reform of decentralized authority, but rather a new authority must supplant the old authority.

On the issue of the correlation between economic system reform and political system reform, some comrades maintained that a prerequisite for the emergence of political democracy has to be a deepening and completion of economic system reform. Furthermore, they maintained that the main obstacle to economic system reform at the present time is not political, but rather the need to resolve ownership structure problems. Comrades who hold an opposing view maintained that one has to realize the limitations of a restructuring of the country's ownership system in the transformation of production methods. This is because the small agricultural economy mode of production completely permeates and limits the political system, and it cannot be broken by economic system reform. Consequently, reform of the political system must be used to bring about a transformation of power relationships. This is the key to the development of China's modernization.

**Political Decline in the Midst of Political Development**

Participants in the meeting felt that matters such as the "official racketeering," which is extremely conspicuous at the present time, are an expression of political decline. However, there were three different views about how to regard this matter. The first view was that "official racketeering" creates loss of control over prices and highlights social conflicts; it can also ruin society's political psychology, and destroy the social basis for the development of reform. The second view held that the outbreak of corruption was an inevitability in the course of modernization; it is the price that has to be paid for carrying out reform. Only when authority is devoured by

money can the way be opened for the commodity economy and the market mechanism. Such a "corruption" of authority is nothing more than an important step in money relationships supplanting power relationships to occupy a place in social distribution. The third view held that various corrupt practices such as "official racketeering" drew support from authority to complete the accumulation of capital. This was an evolution that changed the sources of authority in the traditional order from a retarding force to an impelling force; thus it has the thrust of a "first stage launch vehicle" in the development of modernization. Such a view clearly contradicts the trend of thought of the New Narodniki School, which combines Marxist fairness concepts with the traditional egalitarian ideas of China's peasants, maintaining that whatever is not efficient is not fair, and substituting efficiency for fairness. Actually, this sacrifices the strong and protects the weak, and sacrifices dynamism while protecting indolence.

#### **Selection of a Model for Political Democratization**

One view holds that China is neither able to choose a direct democratic model combining words and deeds that is suited to small scale social units, nor can it immediately realize a model of plural participation in which power is highly decentralized. As a country that has come late to modernization, we cannot withstand conflicts of interests and waste of resources, but rather we must concentrate our most outstanding talent and select a model of "multiple expression and a balanced elite" to insure high mobility and a highly efficient administrative system, relying on elite democracy to advance modernization.

Opposing views came from three quarters. One held that elite democracy actually pays a price in sacrificing pluralistic and widespread political participation, and might be a return to the old road of worthy ministers and a noble ruler. The expression of multiple interests cannot be reconciled with elite politics. The second view held that elite politics is not feasible in practice. The conditions needed to translate an intellectual elite into a political elite happen to be political system reform and political democratization. The third view held that democracy should be the pursuit of ultra-utilitarianism combined with liberty to become an important goal of modernization, and not just a technique that can be dispensed with.

#### **Need for Selectivity in Modernization Underscored**

40050219b Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
5 Dec 88 p 2

[Article by Li Li 7812 5461: "A Successful Modernization Has To Be a Chosen Modernization"]

[Text] At the 15 November "Public Lecture on Tradition and Modernization" sponsored by Beijing University,

Professor Luo Rongqu [5012 2837 3255] noted that tradition and modernization are a co-existing and mutually supporting relationship, and that a successful modernization has to be a chosen modernization.

The relationship between tradition and modernization has been discussed for several decades from the "May 4th Movement" until the present day. Speaking from the angle of modernization studies, modernization is, by its very nature, antithetical to tradition. Since the "May 4th Movement," the main stream in China's cultural enlightenment has been the radical thinkers in the westernization school who regards modernization and tradition as two different poles that are irreconcilably contradictory and conflicting. The controversy that has gone on for the past several decades has halted at this level. What can be done to break out of this predicament? Professor Luo Rongqu believes that only by perceiving our study in terms of ideational models can we move farther ahead.

Professor Luo has analyzed primarily the three ideational models given below.

#### **First Is the Challenge and Response Model**

This ideational model regards China's modernization as a process of passively responding to challenge of the world modernization. It regards tradition only as the tradition of third world countries, and it regards modernization as meaning only western modernization. When one uses this method and this model to observe problems, he supposes that everything occidental is good, and everything oriental is bad. China's modernization can only be "westernization" or "complete westernization." It is a modernization without choice. Later on, when Marxism was transmitted to China, this point of view was further elaborated. Not only was China's tradition held to be bad, but even western tradition was bad. Only the Soviet model was the best. This was completely against tradition.

#### **Second Is the "Return-to-Zero Theory" Model**

This was first proposed by western political scientists. It holds that the increase of modernity in society is inevitably accompanied by a decrease in tradition, and that increase in tradition also means a decrease in modernity. It regards tradition and modernization as two immutable entities, and in the contest between the two, either tradition defeats modernization, or modernization defeats tradition.

In reality, modern industrial society is by no means such a very simple society completely separated from tradition. It is possible to have both at the same time, and sometimes modern things even continue to reinforce tradition. Furthermore, modern things are not all good, and they and traditional things are sometimes complementary. To regard modernization and tradition as an abstract, pure, ideal model is unrealistic.



### Third Is the "Two-Way Choice" Model

Professor Luo Rongqu believed that a successful modernization should be a two-way process, which is to say that modernization challenges tradition, and that tradition also makes a corresponding transition toward modernization under its own conditions. Successful modernizations are two-way modernizations; they are chosen modernizations of which Japan is a successful example.

Chosen modernization has the following two aspects: One is a screening of tradition. Among traditions, the things least suited to the modern age are the traditional political structure, and the traditional economic operating mechanism. However, these are rather all encompassing things, thus it is necessary to analyze and screen them. One cannot repudiate them in the abstract; instead, one has to approve of them one by one. Nor is it possible to approve of them in the abstract; instead, one has to repudiate them one by one. The correct way should be to select the "sublate" dialectical negation method to get rid of those things not suited to modern times and not suited to reform, but not reject all tradition completely. The other aspect is the screening of modern things. Not everything in modern western industrial society is good by any means. One must selectively modernize on the basis of what is suitable for China. Only in this way can our modernization become a successful modernization.

### 'Self-Supervision' by CPC

40050223b Beijing LILUN XINXIBAO  
[THEORETICAL INFORMATION] in Chinese  
12 Dec 88 p 3

[Article by Yang Lingzhai 2799 3781 2298: "Self-Supervision by the Ruling Party Itself Ineffective"]

[Text] In his article in issue No 6 of the JOURNAL OF QIQIHAR TEACHERS COLLEGE, Hu Liansheng [5170 6047 3932] points out that in order to do a good job of party building by the ruling party, it is far from sufficient to merely rely on self-supervision of the ruling

party itself. Key items should be submitted to the supervision of the masses outside the party, and it should be a combination of inner party supervision and supervision by elements outside the party, because it is difficult for the ruling party to supervise itself well. First, the entire ruling party's system is identical in positions and standpoints, in angles of viewing problems, and in methods dealing with these problems. As a consequence, problems within the party are unlikely to be discovered by itself. Second, the supervisory organization within the ruling party is organizationally one and the same as the party itself, interrelated vertically and in a subordinate order. The Discipline Inspection Commission cannot possibly have powers beyond those of the Politburo, and no matter how independent its character, it has to take orders from the Politburo. It may, therefore, still be in a position to supervise lower party members and party cadres, but would find it difficult to exercise supervision over powerful party leaders, like Stalin and Mao Zedong.

If the ruling party would supervise itself, there would be a slim chance of effectively ridding the party of its own malpractices. The supervisory committee of the CPSU had not been able to stop Stalin's large-scale purges and personal dictatorship. The supervisory committee of the CPC had also not been able to stop the anti-Rightist struggle, the 10 years of great calamity, and Mao Zedong's personal dictatorship.

As the above-mentioned analysis shows, effective party building of the ruling party will only be possible by an effective supervision of the masses outside the party. The position taken by the various mass organs outside the party, and the viewpoints that these mass organs represent are different from the ruling party. Their perspective of viewing problems and their methods of dealing with these problems are also different from the party's. It will be much easier for these mass organs to detect problems in the ruling party. For one thing, they are organizationally different from the ruling party. For second, they are politically free, organizationally independent, and equals in power. These mass organs are truthful and effective in supervising the ruling party. For this purpose, it would be necessary to pass special legislation to ensure the legality and authority of supervision by the mass organs outside the party.

## NATIONAL AFFAIRS, POLICY

### Article Advocates Continuing Macroeconomic Control

40060214 Beijing LIAOWANG [OUTLOOK]  
in Chinese No 49, 5 Dec 88 pp 18-19

[Article by Wu Ming 0702 2494: "Macroeconomic Control Measures Must Continue Unabated"]

[Text] In the first 6 months of this year, the economy managed to grow at a fairly steady rate; there were even signs of slowing down. In August, however, the economy suddenly heated up and continued to surge. In September, industrial output rose 20.2 percent compared to the same period last year. In October, fixed asset investments in the ownership by the whole people system rose 37 percent over last year during the same period. For the year as a whole, China's industrial growth rate will exceed 17 percent, the second highest in the almost 40 years since the founding of the PRC.

The central government's tight measures have begun to cool the overheated economy. But will the economy cool off completely? Will it slip again after the cooling-off period? One question mark after another fills the minds of the people as they prepare to bid farewell to the old and welcome the new year.

#### Ease the Grip and the Economy Will Heat Up

Last year, the central government tightened the financial policies on the one hand and credit loans on the other hand and made possible this year's fairly comfortable economic climate and stable economic growth during the first 6 months.

As a result, the State Statistics Bureau has prepared an optimistic analysis: During the first 6 months of this year, China's basic construction investments have been successfully kept under control. Units in the ownership by the whole people system have invested a total of 45.6 billion yuan—13.6 percent more than last year, but this level is below last year's during the same period. Furthermore, after the 16.7 percent increase in April, it began to slow down: In May the rate was 15.5 percent, dropping to 12.9 percent in June.

As the total investment volume became more manageable, the investment mix also improved. The same report indicated that investments in local projects have trimmed. The report covered 12 provinces and regions around the country: reductions in Hebei, Gansu, Fujian, and Shanghai ranged between 19 and 36 percent. Investments in energy, raw and processed material industries have increased; they accounted for 45 percent of all basic construction investments by the units in the ownership by the whole people system, reaching the highest level since 1985. Investments in non-productive type constructions have declined further, from 32.9 percent to 28.6 percent.

If this trend had continued, we would have had reason to celebrate, because even if the growth rate were to be slightly higher in the latter half of this year, things would still be okay.

Regrettably, amid the overly-optimistic assessments, the macroeconomic control began to relax. One clear indication was that large quantities of money had quietly slipped into the economy. In the past, some money would normally be withdrawn from circulation during the first part of the year, but this year has been different. Not only has there been no withdrawal but more money had been put into circulation, and more money has continued to pour in.

As a result, society's total demand has outstripped total supply. By the end of the third quarter, total demand has increased 33.6 percent, almost doubled the rate of increase in supply. Experts predict that this year, China's fixed asset investment will exceed 420 billion yuan, 100 billion yuan more than originally planned.

In this grim macroeconomic climate, it is not difficult to explain the many problems which have emerged: the increasingly-tight supply of energy resources and raw materials; the serious lack of communication and transportation facilities; the deterioration of product quality; the steady rise in product prices—13 percent in the first 6 months, 24-25 percent in the last 6 months, and over 30 percent in some large and mid-sized cities; and the market instability, panic purchases, profiteering, etc.

#### Serious Problems With the Mechanisms

But we cannot blame this year's bloated investment and consumption on the lack of macroeconomic control alone. Because the central government can control only 50 percent of its revenues, it must pay some attention to the problems in the existing mechanisms. In the transition from the old system to the new, we are faced with a neither-old-nor-new set of economic mechanisms. It contains two important components: one, the enterprise contract system, and two, the local governments' financial contract system.

The broad implementation of the contract system has been the major breakthrough in China's restructuring of the economic system. It has become the growing point of China's future economic system. But as yet, the property rights of enterprises implementing the contract system have not been defined. Most enterprises just follow the principle of "dividing up the profits." That is, they look after their own interests first and fight with the state over the profits, and they have no self-restraining mechanisms. Under the circumstances, their behavior is seldom compatible with the government's policy.

In the financial contract system, local governments are no more than oversized enterprises. Local governments want to increase revenues to make everybody rich, but



since they are unable to improve the economic performance, they resort to increasing the scale of production. As a result, there are 16 pop-top can production lines, and small machinery, metallurgical, and textile factories are scattered all over the country. We see "five people sharing a meal meant for three"—everybody wants a piece of the action to make sure that the profit does not go to somebody else. They set up small enterprises and shut down large enterprises. As output value goes up, the profit margin comes down. Production is repetitious; too many people are fighting for too little resources. Furthermore, against a background of fluctuating prices and the double track system, only those who have material goods in hand qualify to hobnob with the ranks around the country. As our loving government officials everywhere well know, like "qin dao—li bo hai er [3830 1497—0448 0514 3189 1422]," not everything can be bought with money.

Thus, if the growing disparity between supply and demand is the direct cause of this year's overheated economy, then a more deep-seated cause has to be the conflict between the microeconomic and macroeconomic mechanisms. What worries people most is the growing conflict of interest among the central government, localities, enterprises, and individuals. If this conflict is not resolved promptly, it will become increasingly difficult to establish macroeconomic control.

#### **Debt Redemption Will Soon Peak**

After decision was made at the 3d plenum of the 13th CPC Central Committee to tighten the economy, chief executives everywhere have expressed the same concern: will the economy "slip gear"?

Well-known economist Dai Yuanchen [2071 0954 2525] has the following comment: the problem with our development lies in the unbalanced economic structure: the processing industry has surged ahead, and raw materials, energy, communications and transportation are lagging far behind other industries. If China wants to escape the grips of inflation and move forward in a steady pace, it must cut back on investments in the processing industry and increase investments in basic industries. If we do this, in the short-run, the growth rate may slow, but if enterprises improve their performance because of this, state revenues need not decline. Dai suggests that in order to modify the industrial mix and improve society's economic performance, we must risk an economic "recession." If we just make a lot of noise because we cannot cope, all of our efforts will be wasted just like before.

The deputy director of the Comprehensive Department of the State Planning Commission, Hong Jiahe [3163 0163 0735], has an even more clear-cut idea: next year, the country simply cannot maintain the high rate of economic growth, because for the past several years, we have been in a "forced take-off" state. The country simply cannot support this speed.

The truth is, the high growth rate in 1985 was sustained by the \$15 billion foreign exchange we had on hand. This year's growth rate has been propped up by the stockpile from previous years, the imported nonferrous metal and the 30 million tons of steel, for example. We will not have these advantages next year. At the end of June, the state's spot exchange balance had been almost 40 percent higher than at the beginning of the year. In the third quarter, exchange spending increased substantially due to imports, and together with the debt redemption, September's spot exchange balance fell almost 20 percent. The third quarter's revenue and expenditure balance was only \$1.54 billion, \$2 billion less than last year's for the same period. Next year, if demand fails to come down, serious inflation will be inevitable.

Beginning in 1990, we will have to pay off several billion yuan worth of internal debts, and 1992 will mark the beginning of peak foreign debt payments. These are serious, imminent obstacles to the reform, and to overcome these obstacles, we must reduce domestic investment and consumption demands, increase effective supply, improve economic performance, increase government revenues, and increase export. If the domestic economy does not cool off next year and in the year after, it will force us to go the way of Hungary and Poland and take out new loans to pay old debts, and the path of reform will become narrower and narrower. This obviously is not something we look forward to.

#### **Beware of Deceit and Non-Compliance**

When senior cadres everywhere began to study the documents of the 3d plenum, they gained the impression that this time the central government has made a firm decision to reduce fixed asset investment, control the economic climate, and adjust the economic order; it is "dead serious." The State Council has set up a leading group to trim fixed asset investment projects. Premier Li Peng is personally attending to the task. Recently, upon receiving a report from the office of the leading group, Vice Premier Yao Yilin said that if work could not be completed by the end of November, it would be extended, and the process had to be thorough. All these prove that the time has come to "go all out."

According to the official in charge of the State Council's leading group, the early phase of consolidation has been fairly successful. Action to trim assorted buildings, halls, and other public projects has been swift. Most regions have trimmed some projects. For example, in the Beijing area, work began in mid-October to sort things out, and in less than a month's time, 60 projects in a list of two groups have been halted temporarily or permanently, reducing the total construction area by 1.1 million square meters, trimming investments by 1.3 billion yuan. But it is clear that when it comes to trimming productive construction projects, some localities are rather reluctant; some just want to wait and see. Some localities maintain that their economy has not overheated and the scope of their operation may be big but



not excessive. Some provinces simply insist that things are "fine." Some cadres boast that they have plenty of "experience" dealing with cutbacks, and things will blow over soon. Somewhere, a project reportedly was 50 percent complete, but inspectors arrived to find that only 2 stories of a 26-story building had been built. Despite a cancellation order, inspectors arrived at a building site to find workers working well into the night to finish the job.

Next year, we want to reduce investments by 50 billion yuan. Based on the customary 20 percent loss ratio, we can expect to lose 10 billion yuan. But if we refuse to pay this price, the loss will be even greater in the future.

Although the central government has repeatedly called on everybody to observe discipline and insisted that the nation obey orders and the localities have expressed willingness to follow the central government's directions, we will not know if they will turn out to be as good as their words until we have a chance to examine each and every project.

#### **Contract System 'Turning Into' Joint-Stock Shareholding System**

40060245 Beijing ZHONGGUO JINGJI TIZHI GAIGE  
[CHINA ECONOMIC SYSTEM REFORM] in Chinese  
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[Article by Tang Gongzhao 0781 0361 2507 and Gu Peidong 7357 1014 2639: "The Contract System Will Be Turning Into a Shareholding System"—Other participants in the present research and discussions: Zou Dapeng 6760 1129 7720, Zhang Daming 1728 1129 2494, and Lai Kunhong 6351 0981 3163]

[Text] The reality of the reform and progress in recent years leads one to ponder the developmental trend of the contract system. Happy with the positive benefits brought about by the contract system, some comrades placed great hopes on the contract system and even considered it the "fundamental pattern of socialism in the initial stage." But worried about some of the vexations and difficulties in contemporary economic developments, there were also scholars who saw rather gloomy prospects for the contract system. However, an even more common and widespread idea was that the contract system still had a certain vitality and that its further development will engender a new economic pattern.

We believe that the vitality of the contract system is mainly rooted in a certain adaptability of the social reality in the course of China's transition from an old to a new system, and its compatibility with the two measures of administrative disposition and market regulation. The contract system, therefore, shows its vitality in two respects: First, in the transition from the old to the new system, the contract system will be the basic pattern for microeconomic reforms, and will also, in the course of further progress, be continuously perfected, become gradually standardized, and grow to maturity. Second, even after the new system takes shape, the contract

system will still have a certain useful scope in accordance with the principle of macroeconomic control at different levels. Besides, if the contract system is understood in the abstract as providing binding agreement and promise between two economic units with regard to certain specific terms, then the contract system will embody the responsibility of the enterprise, or any other economic entity, to internally implement economic action and will become the general and normal means of improving business management.

However, according to the general trend, the enterprise contract system is bound up with a specific economic reality and as such has of course its particular historical relevance. Change in the economic reality creates basis for its substitution by a new form. This new form is the shareholding system as the basic property and organizational form of enterprises in the commodity economy society. The contract system will be turning into a shareholding system. The following are some facts in support of this assumption:

1. Considered from a microeconomic viewpoint, the shareholding system is better suited than the contract system to have enterprises fully assume the characteristics of cells of the commodity economy.

In Western countries, enterprises on the shareholding system sprouted up in large numbers after victory of capitalism, and this is not an accident of history. After employment of machinery in large factories and the related accumulation and centralization of capital, a search for the deeper reasons will have us discover without difficulty the fundamental connection between the emergence of the shareholding system and the development of commodity economy. The shareholding system and its peculiar mechanism enriched and perfected the commodity economy nature of enterprises, and as a consequence fittingly rendered the enterprises into basic cells of the commodity economy. China's present economic transformation must not be treated as identical with the occurrences at the beginning phases of capitalism, but on instituting patterns of commodity economy, there are indeed some similarities. Without any doubt, in China's past economic development, there have been preconditions for the use of the shareholding system. Compared with the contract system, the shareholding system creates enterprises as commodity producers with deeply inherent characteristics of belonging to the commodity economy and this is evident in the following: 1) The shareholding system provides preconditions for the enterprises to be able to fully dispose of enterprise assets and to independently assume economic responsibilities. It is the independent position of the commodity producer that provides the material foundation for his ability to fully dispose of assets and to independently assume economic responsibilities. Although the contract system enhanced freedom of action of enterprises, enterprises under the contract system were still not fully free to dispose of assets, especially fixed assets. The guiding function of the market for enterprises was impaired by

the restrictions on enterprises in the disposition of their assets. Furthermore, because the enterprises did not enjoy ownership rights over their assets, they were actually unable to assume responsibility to the state for turning over profits and taxes. The fact that some enterprises could not fulfill the commitment they had contractually undertaken illustrates this point. The shareholding system is obviously superior in this respect. According to the principles of the Enterprise Law, assets of an enterprise on shares, regardless who the original owners of the shares had been, are all property of the legal person, and the enterprise can freely dispose of everything as it pleases. When assuming financial responsibility, an enterprise on shares is limited in its responsibility to the full extent of its actual assets. Under actual conditions, it can also, through setting up enterprise shares, ensure earnings on shares in respect of state-owned assets. 2) The shareholding system can establish fully effective mechanisms of encouragement and restraint. We have to admit that the contract system can also have certain encouraging and restraining effects on the actions of enterprises, but with regard to intensity or in scientific respects, only to a more modest degree as compared with the shareholding system. The methods of encouragement under the contract system are mainly exercised through linkage of the business returns of the enterprise with labor income of staff and workers, and by stimulating in this manner the enthusiasm of staff and workers. However, the degree to which labor income can be increased is restricted by a variety of other social factors, besides, raising labor income must not necessarily and rightfully be linked to the increased accumulations of the enterprise. There are, therefore, certain obvious shortcomings in the methods of encouragement available under the contract system. Different from the contract system, the shareholding system emphasizes encouragement of enterprise actions, and, through an abundant enterprise strength, will promote increased earnings by its working staff and workers and simultaneously increased earnings on enterprise capital. In this respect, increased earnings of staff and workers are preconditioned by an even larger increase in enterprise strength. As to the restraining mechanism, the restraint under the contract system, which employs restrictions in salary and wage distribution, is being challenged by the rigidity of the salary and wage incomes. The restraint on the enterprises shows a weakening trend because in the legal sense enterprises do not own any assets at all. Thus the shareholding system appears superior also with regard to any restraining mechanisms. First, restraint under the shareholding system has as its material basis the real assets of the asset subject. The consequences of action by each asset subject makes itself directly felt in an increase or loss of value of the share owned. Second, the restraint in the shareholding system is an organic system of mutual restraints between the various subjects. The perfect enterprise under the shareholding system is actually a perfect restraining system. All the various individual subjects (shareholders), who are all individually desirous for personal profits, are gathered together in one economic entity (the enterprise on shares), striving

for the common interest (maximizing of profit). It is an entity which is necessarily interwoven with strict, inherent restraints. In overall perspective, enterprises under the shareholding system are better suited to constitute the micro-foundation required for a full development of the commodity economy.

2. From a macroeconomic viewpoint, the shareholding system lends itself better to indirect adjustments and controls, as compared with the contract system.

In the last few years, theorists have frequently complained that it has not been possible in macroeconomic respects to give the contract system an appropriate comprehensive support, and this, as a consequence, has restricted giving a broader scope to the functions of the contract system. This complaint contains a presupposition, namely that society could have possibly created the ideal macro-environment required by the contract system. However, we believe that in every society the actual effectiveness of macro-regulation is restricted, or even determined by the degree of maturity of the micro-cells, or, in other words, by the degree of adaptation of the means of macro-regulation and control. Generally speaking, whatever the shape of the micro-foundation, there can always be a corresponding macro-regulation and control mechanism. When the micro-double structure is still in its initial stage, it is unrealistic to expect the state to come up with a perfect macro-regulation and control mechanism. Viewed under the aspect of the demand for indirect regulation and control, and for having this play an important role, the adaptability of the shareholding system is obviously quite outstanding, if compared to the contract system.

The shareholding system is much better suited than the contract system to enable adjustment of the industrial structure. The contract system had been instituted with the actual distribution of enterprises throughout the country as its foundation. We have to admit that after contracting, enterprises had a certain motivation to adapt to the requirements of the market and to adjust production and product mixes, but the contradiction between limited contract periods and obligation to turn over profits and taxes and the necessary technological investments again made enterprises frequently abandon any desire for changes in specializations or production. The advantage of the shareholding system for any adjustment of the industrial structure is revealed in two respects: First, the desire of the shareholder for increased value of his shares and for maximizing share income may spontaneously promote industrial adjustments. The direction in which shares will flow will also indirectly reflect the trend of adjustments in the social industrial structure. Second, the implementation of the shareholding system makes movement of incorporeal capital replace movement of corporeal capital, and under such conditions, adjustments of the industrial structure will greatly gain in facility. Moreover, the shareholding system is better suited to employ lever function. The way the price, taxation, and credit levers were used in China

in recent years was hardly to everyone's satisfaction, and the progress in reforming this system was sluggish. This is to some degree related to the operation of the contract system. On the one hand, after the contract system had become widely used, comparatively large reform measures with regard to prices, taxation, and credit could not be materialized because of their effects on fulfillment of contracted obligations. On the other hand, certain particular methods of the contract system were at odds with the mechanisms of these levers. For instance, combining profit remittance and tax into one, repayment of loans before tax, etc., were measures that ran counter to the demands for tax and credit regulation.

3. As revealed in its actual practice, the contract system already engendered the embryo of the shareholding system.

The transition from contract system to shareholding system is not only a natural trend but also the natural result of actually practicing the contract system. The principles of rigid base figures and authorized retention of excess earnings, which are part of the contract system, are in actual fact foreshadowing the emergence of the shareholding system. This is so because the authorized retention of excess earnings already acknowledges an independent property interest of enterprises. Although present legislation and government policy do not yet explicitly acknowledge ownership rights of the enterprise with regard to retained excess earnings, managing funds by means of separate accounting systems already indicates a respect for the ownership rights in these assets of the enterprises. Actually, after the conversion of profit remittance to outright taxation, possession of the rights to retained profit after taxes has already awakened a desire in the enterprises for property rights, and the pursuit of maximum retained profits has become the set trend in the basic way of thinking that guides the business activities of enterprises, because the amount of the retained profit is a direct indicator for the abundance of the enterprise's own profits. After initiating the contract system, the authorized retention of excess earnings has further raised the problem of allowing enterprises to own property rights. From a theoretical point of view, the authorized retention of excess earnings comes even closer to enterprise property rights than the general retained profit after tax. Looking at the source of it, we see that the general retained profit after tax can still perforce be regarded as a portion of the profits delegated to the enterprise by the owner, but the authorized retention of excess earnings is the remaining balance of the owner's production in excess of what is needed to satisfy his plan-determined earnings (theoretically one may assume that the basic figure for turning over profits is equal to profit from invested capital plus tax). Looking at the flow direction, we see that, on the one hand, the portion of the profit which is materialized in the form of newly created assets by authorized retention of excess earnings turning into accumulations, still appears as "self-retained" profits. This is obviously quite different from the general retained profit after tax, since the latter

can under no circumstances become the basis for profits that are to be divided up. On the other hand, if the enterprise is unable to remit up to its base contract figure, a portion of the authorized retention of excess earnings will be used to satisfy the obligation up to the amount of the base figure. The retained excess earnings are, therefore, in the nature of a risk reserve fund. The general retained profits after tax, on the other hand, are never used for remittances of profits and taxes, even when the enterprise showed low business returns. We see from these facts that authorized retention of excess earnings under the contract system has indeed laid the material foundation for enterprises to enjoy property ownership rights.

Once the enterprise enjoys the benefits of independent property rights, there will naturally come about a duality in the enterprise property subject. Under the effect of mutual investments of enterprises and investments in the enterprises by staff and workers individually or by other economic units of society, the property subjects of the enterprise will still show a pluralistic trend. In these circumstances, the essential way to appropriately handle the relations between property rights and income distribution within the enterprises, and to ensure effective management and self-determination in business affairs being practiced by enterprises, is implementation of the shareholding system.

The function of the shareholding system is not only, as conventionally understood, the accumulation of capital. Collecting capital is merely an external significance of the shareholding system. One of the fundamental functions of the shareholding system is to get a multiple of different property owners together and to work harmoniously together in one economic entity, thus pursue common economic objectives, according to commonly accepted rules on property rights and the distribution of profits. The rational and scientific nature that is inherent in the mechanism of the shareholding system excludes all conflicts between the differing interests of the various economic subjects. Viewed from another angle, the essential precondition for the operation of the shareholding system is the merger within one entity of a plurality of different property subjects. In other words, when the plurality of different property subjects in the same entity engenders the foundation for the operation of the shareholding system. Starting out from this assumption, we believe that after duality or plurality of enterprise property subjects had been introduced by the contract system, the transition from contract system to shareholding system is an inevitable development. Only by availability of a general mechanism of shareholding, one that has been evolved and perfected in a protracted period of gestation, will it be possible to properly regulate the property and distribution relations in the affairs of the enterprises as between state, enterprises, and personnel, and in relation to other economic units in society. The contract system has created "self-owned" property of enterprises and generated the elements to allow itself to pass on to an even higher form.



Of course, the shareholding system, instituted under the socialist conditions of China, must not indiscriminately copy the general patterns of Western shareholding systems, but must have its own special characteristics in its methods of distribution and in its organizational pattern. We also believe that the contract system gradually developing into the shareholding system does not mean that the contract system will be completely transformed into a shareholding system within the immediate future or within a short time. It will not do to merely rely on rational assumptions in the matter of the contract system gradually developing into the shareholding system, it rather requires certain realities: 1) The authorized retained portions of excess earnings should accumulate and gradually form an accumulation of considerable proportions. 2) The enterprises shall have formed a basic sense of self-restraint. 3) Market rules shall have become essentially established, and the regulatory function of the market shall have basically been established and become overall effective. 4) Government functions (including functions of the political power units and of the property-owning units) shall have undergone considerable change. Moreover, the simultaneous reform of the tax and the price system will also be major conditions for the institution of the shareholding system. The process of achieving all these preconditions will make up the gestation period of the shareholding system.

Moving from the contract system to the shareholding system is not an act of rectifying a deviation in China's reform, but rather the objective continuation of the developmental stage of the reform. Without having the contract system in general use today, it would not be possible to institute a widespread use of the future shareholding system. The anticipated function of the shareholding system will proclaim the important significance of having practiced the contract system. This abundantly demonstrates the correctness of our strategy and the positive effect of China's reform. The road we are pursuing today is most solidly founded, and the efforts we have expended on instituting and perfecting the contract system have been of great significance.

#### Article on Inflation, Price Reform

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[Article by Xiang Sika 0686 2448 0595 of the State Economic System Reform Commission: "The Nature of China's Price Inflation and Thoughts on Price Reform"]

[Text]

#### I. An Analysis of the Nature of China's Inflation

In the final analysis, is China's inflation over the past few years a currency phenomenon or a problem with our system? Correct understanding of the nature of or reasons for China's inflation is a fundamental prerequisite

to the study of countermeasures. Currently most people are arriving at the simple conclusion that our problem is currency inflation or a currency phenomenon. The way I see it, China's inflation over the past few years essentially can primarily be ascribed to the following six factors:

A. Reasonable adjustment. Tactically speaking, there are three ways to adjust the price system:

1. Stabilize low prices, lower high prices, and bring high prices down toward the low prices.
2. Stabilize high prices, raise low prices, and bring low prices up toward the high prices.
3. Lower high prices, raise low prices, and bring high and low prices into a convergence.

Obviously, given no change in other factors or viewed from the requirement of stabilizing commodity prices, the first plan is the best one. However, setting out from the realities of life, this plan is not feasible due to the rigidity effect of price levels. The third plan is not feasible for the same reason. Raising low prices undoubtedly would be welcomed but a lowering of high prices would also be met with considerable resistance. Thus, we are left to choose the second plan. However, this will inevitably cause a rise in the overall level of commodity prices.

B. Currency phenomenon, or, imbalance in the total amount. From 1979 to 1987, China issued currency at an annual rate of over 24 percent. (The issue rate in 1984 was as high as 50 percent.) Between 1983 and 1986, the average increase in market currency flow was over 32 percent. (This phenomenon cannot be explained by looking only at the shift in our national economy toward commodities and currency and the small economic growth index.) Between 1979 and 1986, average income in China progressively increased 10.8 percent annually which surpassed the 6.5 percent progressive annual increase in the rate of labor productivity. During the same period national income progressively increased 8.7 percent annually but the consumption fund and fixed asset investment increased 10.1 percent and 26.4 percent respectively. Between 1979 and 1986 our society's overall year-end surplus purchasing power increased 26.87 percent annually. Obviously, the unprecedented rise in overall social demand which caused the imbalance in total amounts played a primary role in pulling up commodity prices.

C. Structure phenomenon, or a structural inability for supply to satisfy demand. Speaking in the area of supply, our shortages are mainly primary products, that is, raw materials and agricultural products. Between 1984 and 1986 China's excavation industry grew at a rate of 43.3 percent and our raw material industry grew at a rate of 39.2 percent but our manufacturing industry grew at a rate of 64.9 percent. In addition, looking at the consumer products market, our annual output value of industrial

consumer products greatly exceeds the gross national peoples income and the purchasing power for social commodities. Why the contradiction between supply and demand in our consumer products market and such intense pressure on commodity price inflation? It's obvious that aside from such false growth creating factors as problems in the flow links and repeated calculations in consumer product production, and factors such as exports and reserves, a major factor involved here is that the product structure isn't geared toward our needs, and product quality has gone down. Looking from the supply aspect, the main factors are overly rapid growth in investment outside of the budget and group purchasing power. Between 1983 and 1987 consumption by groups in our society progressively grew over 20.4 percent annually and investment outside of the budget which accounted for 23 percent of society's fixed asset investment during the Fifth 5-Year Plan soared up to account for 55 percent of the same during the Sixth 5-Year Plan. This created a structural increase in demand and pulled up the prices of primary products.

**D. Market fluctuations.** This is in reference mainly to agricultural product prices. Granted, inadequate supply is a major reason for the huge increases in prices of agricultural products in recent years. However, another major reason is the market fluctuations which have been brought about by the unreasonableness of the flow system for agricultural products that is currently in effect.

**E. System phenomenon.** Our price reforms were launched under conditions whereby we saw abnormal rises in the interest motives of various main economic bodies but micro-restriction mechanisms (including financial restrictions and behavioral restrictions) and macro-adjustment and control mechanisms were entirely unsound. As market prices went up, the reaction of the various main economic bodies was not to cut back on supply and adjust production and management plans, but rather it was to use state finances as a backup force in running up prices, bringing about panic buying, pulling prices levels up to new heights and missing the supply and demand curve of the classical economists. Viewed from the aspect of market behavior, the phenomenon of wanton price hikes by grassroot enterprises, local governments, flow links and production departments was both widespread and serious and directly promoted rising prices.

**F. Dislocation of reforms.** It is common knowledge that the essential significance and basic objective in the reform of our economic system is to move from the traditional planning system characterized by command type planning with powers centralized high in the government toward market operating mechanisms characterized primarily by price regulation, industrial deployment of key production elements, and economic resources guided by prices and economic behavior that regulates each of the main economic bodies. If we are to achieve this transformation, then inevitably we must reform our price system and make it more rational. The

problem is that on the one hand the people simplify and take a one-sided view of the market mechanism and on the other hand they blindly worship the market mechanism. In their understanding of price reform and reform of the entire economic system the people don't fully realize how the whole system works, what the long term needs are, where the difficulties may lie and what aspects may be complex. They simply understand the market mechanism to be a price mechanism and even equate it with a pure release of prices and a way around enterprise reform. They overlook micro-restriction mechanisms, macro-adjustment and control mechanisms, construction of the flow and market systems, and the various ancillary system reforms. Objectively this has led to dislocation of the reforms and a clash between the new and old systems. In practice we have been too eager to see quick results and this has caused price reforms to become an isolated force that runs the risk of being besieged on all sides while entering deep into enemy territory. On top of this the price reforms themselves lack an overall plan, preparation is inadequate and quite often no thought is given on how to save the reform until after it has already sprung a leak. The result of this has been, on the one hand, currency issuance has gotten out of control and demand has gone up somewhat and this has pulled up price levels as a whole. On the other hand, numerous businesses have been engaging in speculation which has helped make the market price for (individual) commodities become the symbol of value. This has cut commodities off from their value measure and taken away the material flow of commodities. That is, use value has been transformed and has risen abnormally.

In summary of the above, the rise in commodity prices in the last few years is mainly a result of system and currency phenomena. But the basic problem remains a problem with the system. Such economic phenomena as currency problems, structural shortages, and market fluctuations are expressions of problems with the system. It is quite clear that if the problem is only one of currency inflation like most people claim then we would only need to reduce the amount of currency in circulation and our problem would be solved. However, we have in fact emphasized repeatedly over the past few years that we should reduce currency and stabilize the economy but none of this has been accomplished. This itself clearly shows that the problem is not solely a currency problem but is mainly a problem with the system. Similarly, if the essence or source of the problem is, as certain comrades claim, merely a structural supply shortage (and from this they conclude that a reduction in currency would be useless), then under conditions where the total amount of currency remains the same the only result would be changes in comparative prices, but we would not see large scale increases in the overall price levels of commodities.

## **II. An Assessment of the Near-Term Commodity Price Situation**

**A. The nature of the Chinese economy is now moving from a kind of natural economy that came about from**

trying to realize use value in the past toward a commodity economy where currency exchange is used as an intermediary and the goal is to strive for value; our economic system is moving from the interim stage of the planned system where centralized state power had as its foundation communist product economic theory toward the age of the planned market economy where the main body is the market mechanism and the system is characterized by independent management and enterprises taking responsibility for their own profits and losses. China is in a real predicament in its mission to industrialize and surpass the advanced level in the world. Also, the demonstrated effect of international consumption levels is that they are greater than the effect of introducing production technology, and life styles change faster than production styles. All of this has led to our unprecedented growth in social demand and relative sluggishness in social supply. And because of all of this, a rise in overall commodity price levels now and in the next few years is an inevitability. In particular, our efforts to change the nature of our economy in the transition, transform our economic system, and achieve our goal of surpassing the developed nations through high speed economic growth are not tasks that can be completed over a short period of time. Thus, the overall commodity price levels will continue to rise for quite some time into the future. We should have a sober understanding of this and make sufficient psychological preparations.

B. Price is a profit lever under conditions of a commodity economy. A major reason why most people keep an eye on trends in commodity prices is that it enables them to prevent price fluctuations from harming their profits. Then how are we to assess the current ability of the masses to psychologically endure rising commodity prices? I feel that the Chinese people have become much more able to economically and psychologically endure price reforms having gone through over 9 years of reforms. However, we should also take sober note of the fact that continual large-scale price hikes over the last few years have led the masses to have greater disappointment and regret about price reforms and the reputation of the reforms has been seriously affected.

We need to make clear that a major reason the masses are increasingly dissatisfied with price reform, aside from the fact that large-scale price hikes have already clearly harmed their interests, is that individual income has been unjustly distributed and this was brought about by the irrationality of relative pricing. In addition, panic buying is the combined result of an exacerbated panic psychology which reflects lowered ability of the masses to endure rising prices and normal market behavior when consumers, in commodity economy conditions, anticipate prices and act accordingly. We need not worry ourselves sick about this but at the same time we had best not overlook it.

C. So, how are we to assess the severity of the current commodity price situation? I feel that in the near future our commodity price situation is quite grim. We had best

not treat this lightly but at the same time we need not be heavy-hearted. On the one hand, as I mentioned before, rising commodity prices are an inevitability in the near future and one-sided emphasis on price stability, artificial restrictions, and an overzealous effort at relief could very well turn on us and harm economic growth and bring about long term, covert, cyclical currency inflation. On the other hand, because commodity price increases are unavoidable, we should pay close attention to the destructive effects price increases will visit upon our economic development, the people's lives, and our system reforms and we should keep the rise of commodity prices within a definite range.

### III. Thoughts on Countermeasures and Intensifying Price Reform

We should have dual objectives for our macro-economic policy. We should both strive to achieve the appropriate economic growth and ensure relative stability of commodity prices. Our short-term policy should lay particular stress on stabilizing commodity prices and our long term policy should stress economic growth. Our short- and long-term policies should be organically linked. Thus, our overall governing policy should be stability with a preference for shortage and after beginning to resolve price problems we should carry out auxiliary reforms.

A. As an economic phenomenon, our widespread increases in commodity prices is a mixed result of an overall rise in social demand and a structural supply shortage. Thus, we should work along the dual lines of controlling overall amounts and adjusting structures through the use of a currency policy, solve the current problem of negative interest rates, and increase the amounts of start-up fund deposits and mortgage loans for public market business and development through the use of higher interest rates all over (this will not only prevent credit increases but also could take some of the risk off of the banks and be helpful in bringing about financial reforms and making banks more enterprise-like) so as to achieve control over total amounts and restraints on demand. We should use tax policy and administratively induced quotas and controls on credit and differential interest rates to implement industrial policy, adjust the mix of industry and enterprises, increase effective supply, and gradually reduce the disparity between overall supply and demand.

The experiences of nations throughout the world are testimony to the fact that there is an extremely intimate interrelationship between the commodity price index and the speed at which the issuance of currency grows. Control over the amount of currency issued is of crucial significance in stabilizing commodity prices and economic development. China should fully draw upon this experience. First, we should strictly adhere to the planned financial and currency credit quotas for this year, do all we can not to exceed the quotas, and not compensate for our financial deficit by drawing on the



banks. Secondly, our currency policy for the neighborhood of the next 3 years should follow the principle of remaining stable while giving preference to shortages. Based on the reactions from various quarters, we feel that the actual amount of currency put into play in 1987 can be used as a ceiling which can be fallen away from when appropriate but which in principle should not be surpassed.

B. If we want to prevent large-scale commodity price hikes at the same time that we are carrying out price reform, one very real problem we must face is preventing deposits from assaulting the market. If we are to accomplish this then we must make the appropriate raises in the interest rates for deposits by the people, and at the same time we must implement various forms of savings bonuses, issue high interest bonds and attract the idle capital of society. However, what needs to be emphasized is that this alone will be insufficient to maximize savings. The wage income of the Japanese is not considered to be high among the developed nations but the savings of the Japanese tend to rank among the highest worldwide mainly because such things as individual medical and health care and old age security funds are borne by the individual to a greater extent than in any other developed nation. In particular, Japanese real estate prices are so high that generally people will be unable to purchase it unless they accumulate savings. We should draw on Japan's experience and speed up our work to make residences a commodity and to reform such social security systems as individual medical and health care and health care for the elderly, suitably raise the proportion of fees paid by the individual for medical and health care and retirement based on the situation of wage reform, and at the same time open up the market for high quality consumer goods (including small cars) and compel our people to increase their savings for these purposes. In this way we can both rapidly withdraw currency from the market and reduce pressure on the market and we can concentrate funds for national key construction presupposing we tighten up the banks. However, we definitely must guarantee that the direction in which these concentrated funds are employed is of an industrial nature. Otherwise, we may shift expenditures but the pressure will not be taken off the market and it will only exacerbate rising investment.

C. In the last few years, as we have carried out price reforms, insufficient matching up of the reforms of the tax system have not only seriously restricted the structural space for price reforms but at the same time this has greatly lowered the ability for state finances themselves to endure price reforms. On the other hand, this factor has become a restraining condition on deeper price reforms. Thus, if we want to deepen price reforms we must thoroughly reform the current tax system and financial departments from the central government down to the local levels should establish double entry budgeting and keep financial expenditures under control. On the one hand, financial balancing cannot be the sole or exclusive prerequisite of restraint in reform of the

economic system and on the other hand we should hurry to strengthen tax collection and management work and at the same time we are making great efforts to adjust the expenditure mix of the financial departments we should follow advances in the current price system and price reforms and make appropriate adjustments in the varieties and rates of taxation on different lines of business and raise sufficient structural space and reserve funds for price reform and industrial adjustment.

D. Runaway investment has not only made the present prices on the commodity market soar but it may also push up market prices over the next several years because of its characteristically long industrial cycle. In particular, because 40 percent of fixed asset investment funds will directly be turned into consumer funds, rises in fixed asset investment may also cause the same for consumer funds and push up the price of consumer goods. Thus, within the next few years we should strictly control the scale of investment and we should especially cut down on extra-budgetary investment. At the same time we should prevent the individual consumption fund from growing and greatly cut back on the consumption of groups.

E. Earnestly sort out and rectify flow links, hold down business profits to appropriate levels, firmly deal a blow to illegal speculation by businesses, and make great efforts to reform the current flow system so as to make the greatest possible reductions to or even eliminate the assaults that fluctuations in the market have on the production and prices of agricultural products and other primary products. At the same time, make widespread the implementation of bills and vouchers in transfer account trade and exchange activity and strengthen cash management. This will both help reduce the various kinds of corruption that multiply when too much cash is used in exchanges, help establish the new order of the commodity economy, achieve fair competition, strengthen supervision over the market and eliminate the negative effect that non-economic behavior in economic life has on commodity prices in the market and it will also help in reforming of the tax system, increasing financial revenues and easing the current financial tension.

F. Foreign trade is a major factor in explaining why our commodity prices have so risen over the past few years. On the one hand, the demands of internationalized production, domestic economic development, and the policy of opening up to the outside have put our mission of earning foreign exchange in a huge predicament. On the other hand, the current foreign trade system has caused our foreign trade departments and enterprises to become indifferent to costs. The asymmetry caused by this sort of system either leads to enterprises driving up the prices of exports, enterprises making panic purchases of exports or else blind importation. This in turn exacerbates domestic price increases. Thus, in the next few years, aside from the fact that we should further intensify reform of the foreign trade system, the state should

strengthen macro-coordination among foreign trade departments, domestic flow departments, and commodity pricing departments and quickly avert the assaults that foreign trade inflicts on domestic markets due to problems produced by the system.

G. Theoretically speaking, despite the fact that liberalization in certain areas originally was a means to make the entire national economy take off and explore a liberalization policy for our entire economic system, currently it has evolved into a self-revolving goal unto itself. As a relatively independent entity that has wandered outside of the national economic system as a whole, this regional liberalization could evade and become exempt from the macro-control of the central government. Liberalized foreign trade, because it is still under the same currency system, it is still under the same price system and there are no racial barriers between the SEZs and the hinterland, has actually been able to proclaim itself as reform while it plunders the hinterland and the entire national economy in high fashion and becomes a destructive factor in shaking up the national economy. Currently the relationship has been turned upside down and, instead of liberalized foreign trade regions serving the national economy, the national economy is serving the liberalized foreign trade regions. This special position allows foreign trade to reap the benefits of the liberalization and at the same time shift the risks and losses to the hinterland and the national economy as a whole. Obviously, disparate regional policies is a major factor in our commodity price increases of recent years. In a general sense we are not opposed to the coastal regions taking the lead in opening up to the outside and establishing an export-oriented economy. However, "under the present situation where we have neither the requisite system nor the economic conditions, "putting both ends abroad" could very well become an empty slogan. Thus, what is of present urgency is to, on the one hand, strengthen the link between the liberalization policy for the coastal region and the macro-policy for the national economy as a whole and not act on disparate regional policies for such issues as prices and, on the other hand, to suitably speed up steps toward reform of the hinterland and avoid having dislocated regional policies drive up price levels in the national economy as a whole.

H. Commodity price rises of recent years have already had a definite effect on the lives of the people and price hikes in the near future are now a foregone conclusion. Thus, we ought to quickly consider extending to the people the appropriate compensation and insert price subsidies for the preceding year into wages as much as possible. I propose that next year we consider resolving the issue of wages for institutional employees and separated and retired employees and put the wage systems for institutional employees and enterprises out on the market, linking the enterprise wages up with enterprise results and institutional employee wages with the development target of the entire national economy and the situation of rising commodity prices at a normal rate of

growth. But we should not change the wages based on state financial conditions. At the same time that we establish and perfect our social security system, we should pave the way by liberalizing the labor system so as to both create an environment of equal competition among laborers and create beneficial conditions for ordering the wage system.

I. Establish a price reform fund system and use the financial revenues that come from raising or releasing prices of high quality commodities as was discussed above to raise the prices for those products that have long yielded only a minimal profit or have been losers.

J. As for price reforms, I feel that in light of the abnormal rise in the profit motive among our various main economic bodies, and due to the fact that micro-restrictive mechanisms and macro-adjustment and control mechanisms have been far from perfect, it is inadvisable to act with undue haste and send only one of our forces out alone. Rather, we should start from the actual situation and proceed in step with reform of the entire economic system.

First, an integrated, standard market mechanism should include a driving mechanism premised on clear-cut interest relationships, an information mechanism characterized by responsive price signals, a perfect micro-restrictive mechanism bounded by a standardized market and a macro-adjustment and control mechanism premised on separation of government and enterprise and having as its primary means the various economic laws and regulations and finances and taxes. Thus, the formation of market mechanisms by no means implies a simple release of prices, a pure reduction in planned quotas, or an enlargement of the scope of the market, but rather implies reform of the entire economic system. Actually in a certain sense the formation and perfection of the market and market mechanisms and in particular the micro-restrictive mechanism and the macro-adjustment and control mechanism is a prerequisite to price release and a genuine giving of full play to the regulative effect of prices. Thus, we feel that in the next few years particular emphasis needs to be placed on reforms of the enterprise mechanism and the macro-adjustment and control mechanism and strengthening market construction. On the one hand, through strict public bidding competition we can perfect the existing enterprise contracting system and on the other hand, we should quickly carry into effect the leasing system and privatization for state-run enterprise all over (this refers mainly to small scale-enterprises) and the shareholding system (for large and medium-size state-run enterprises) and thereby basically resolve the motive mechanism, the restrictive mechanism, and the behavior mechanism of the enterprises (actually, through large quantities of stock sales, this reform could also greatly relax and resolve the pressure that the rising consumer fund exerts on the market and commodity prices and it could provide a mechanism for the consumer fund to be transformed into an accumulation fund). At the same time, we should

quickly hand over to the National People's Congress the currency issuance power and the power to examine and approve the financial budget and prevent and eliminate the instability and arbitrariness that comes from government intervention in currency policy and the economic fluctuation that is brought on by this. Also, the practice in some areas of regional contracting not only destroys the unity and authority of the central bank's currency policy but also it basically takes away the possibility for the central bank to employ a currency policy. This practice would cause Western nations to burst out laughing and should be eliminated immediately. Whether or not price reform will be successful depends on the depth of enterprise mechanism reform and macro-adjustment and control mechanism reform. Just how far the former should move ahead ought to be determined with reference to how fast the latter is moving.

Second, in view of the current economic situation and market environment, I feel that price reforms over the next few years should adhere to the following line: first take 1 to 2 years to carry out the above-mentioned reforms, make great efforts to rectify flow territories, set the market environment in order, establish laws and regulations for the market, and strengthen market construction. In economic development strategy, we should completely change that guiding thought that emphasizes speed over results, strictly control society's overall demand and create a relatively relaxed economic environment. At the same time, based on the circumstances, we can carry out some price reforms where there are problems urgently in need of resolution, where the problems are fairly isolated or the supply and demand relationship is not heavily strained and where the result will not lead to a major assault on the price system of the national economy as a whole. (For example, we can raise prices for agricultural products or transportation fees. But it needs to be made clear that the moves made in this kind of reform are exploratory. If the first move is successful, the second move in the reform can proceed. But if the first move is too large, the risks will be too great and this could put up obstacles for the second move. Thus, tactically or strategically speaking, it is inadvisable for the first move to be too large.) Once the conditions are ripe, we should follow the principle of a combined adjustment and release of prices and make a one time linked move and at the same time that prices have been basically released we should widely implement a progressive taxation system on excess amounts without distinction between the economic nature or production scale of the various enterprises. And at the same time we are opening up the labor system we set the wage system in order.

Third, the "dual track pricing," a monster created through the combined efforts of bureaucratic political science and vulgar economics, has not one redeeming feature. The arguments in defense of "dual track pricing" fully reveal the vulgar nature of our economic scholarship. Today "dual track pricing" has been thoroughly repudiated everywhere from theory to practice.

However, what kind of a price system is "dual track pricing" to give way to? I feel that, based on the objectives of price reform, prices for the majority of products and especially industrial products including steel products should be released and should be regulated by the market. However, in order to ensure the needs of key items of national construction and key enterprises are met and in order to ensure normal market balance, we should do what is done with prices for such monopolized industries as energy resources, communications and transportation, fees for such public utilities as water and gas and prices for such industrial production materials where resources are critically in short supply as wood, aluminium, copper and silicon steel sheets and pass their prices on for the state to control, employ fixed prices to ensure long-term equilibrium and use floating ranges to regulate their short term supply and demand. The price levels for these things can be determined based on principles of average industry profit and tax breaks for the product as well as the weighted average of price in toto. Short-term fluctuations can be adjusted based on market supply and demand. However, regardless of whether its the price level or the range of fluctuation, the government should have direct control.

Fourth, the most pronounced problem we currently face is excessively low prices for agricultural products and especially such primary agricultural products as grains, cotton, oils, and pork. Somewhat low or below profit prices for industrial products can in the end be borne by the state. But if we don't adjust the prices for agricultural products then there is no way to guarantee the farmer will make a profit or produce with enthusiasm. Thus, I propose that we quickly eliminate the current variegated pricing for agricultural production materials and primary agricultural products and let the farmers use one price in their dealings with industry and townspeople. At the same time that we are following the principle of average profit and making the appropriate hikes in the factory price of such agricultural production materials as chemical fertilizer and lowering the price to consumers through efforts to rectify the flow links, we should carry out state control and management of agricultural production materials and make the appropriate hikes in the sales price of primary agricultural products based on progress in price reform of agricultural materials and comparative prices among agricultural products.

K. It appears that our current economic problems and market patterns are dying hard and unless we perform major surgery I'm afraid we won't be able to solve our problems in the near future. Mechanism transformation and market construction are also not susceptible to completion in the near future. Thus, as a last resort I feel that we can consider using currency reform as a starting point and lever for a wholesale reform plan. That is, at the same time we are quickening reform of the financial system and the state finance system in accordance with the ideas I have presented above, we should renew the equivalency value of currency and put a limit on the amount of individual cash conversions (like 4,000 yuan).



Conversions beyond the limit could be compelled to be put into savings or applied toward the purchase of state bonds (this is of course premised on hikes in the interest rate) or enterprise shares. This would both be of benefit in reducing the costs of currency system reforms, controlling cash flow, strengthening cash management, switching transfer account trade and exchange activities over to the use of billings and invoices, and prevent and eliminate corrupt behavior that results from excessive use of cash in exchanges and would also help in controlling society's overall demand. We could seize this opportunity to establish a public reporting system for state financial departments, an individual income tax system, a property tax system, and a social security system. Also, through audits we should locate those ill-gotten gains that have yet to be confiscated so as to lessen unjust social distribution. However, it needs to be emphasized that by no means can this take the place of reform of the entire economic system and, in particular, reform of the enterprise mechanism and the investment system. Thus, we must also seize the opportunity to carry out mechanism transformation centered around enterprise reform and at the same time, premised on strengthened market construction, make great strides in price reform and basically release prices. Otherwise, in the aftermath of the "flood," everything from the past will slowly come to revisit us in our state of desolation.

## FOREIGN TRADE, INVESTMENT

### Goals, Objectives of Structural Reform

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[Article by Xu Jianfeng 1776 0494 6912: "A Plan of Objectives for the Structural Reform of China's Foreign Trade"]

[Text] Since 1979, when China started the structural reform of its foreign trade, several successes have been achieved in breaking down parts of the traditional, highly centralized foreign trade structure, and these successes enabled China to make considerable progress in the last few years in its foreign trade and economic relations. However, due to the lack of a distinct scheme for all objectives and a clear train of thought, steps taken in the reform have always been limited to adjustments and delegation of powers. There was, in particular, a lack of a medium-range purview of trade management, which prevented establishment of an effective medium-range regulatory system. This made it impossible to effect a thorough reform of the old system, and allowed the situation to become one of "little vitality and excessive confusion." It has, therefore, become necessary for the structural reform of China's foreign trade, to, first of all, formulate a plan of objectives suited to China's national conditions, and, furthermore, to acquire a clear train of thought on the reform. The present article attempts an initial exploration from these viewpoints of the structural reform of China's foreign trade.

### I. Some Comparative Patterns of Foreign Trade Systems

According to the different trade administration and business systems, we may roughly distinguish four patterns in the foreign trade systems of the various countries of the world: central planning, coordination between planning and market, the coordinated markets, and decentralized markets.

A. Centrally Planned. Special characteristics of this type are that a central government centrally administers the macro-activities of foreign trade, and that the micro-activities of foreign trade are also directly performed and managed by the government along trade lines. The administrative and operational structure is divided between two parties: the foreign trade ministry and specialized foreign trade corporations. The means of administration are mainly command-style planning and relevant policies of the government. Most of those who employ this type of system are socialist countries that practice planned economy, and a very typical example is the foreign trade system of the Soviet Union during Stalin's time. After the 1950's, the Soviet Union and the East European countries instituted reforms in their foreign trade systems, based on the developmental requirements of their national economies. These reforms consisted mainly in delegating operational and managerial rights to lower entities and a reduction of government interference. The foreign trade enterprises would then do their own independent accounting and assume responsibility for profits and losses. At the same time, some academic organizations and semi-official management and research organizations were set up to engage in coordination and guidance of foreign trade activities. However, these efforts were unable to break down the framework of the planned centralized pattern, and were still maintaining the managerial and operational "foreign trade ministry—specialized import-export corporations" pattern.

B. Coordination Between Planning and Market. It is characterized by having the state government exercise unified centralized control of all macro-activities of foreign trade by means of its policies, laws, guidance-style planning, as well as through taxation and bank credits. The micro-activities of foreign trade would then be left for the people to freely organize among themselves. At the same time, at the medium-range level, action would be taken by semi-official or nongovernment nationwide or regional import-export associations and industry and commerce federations, and those organized on trade lines, or by academic societies and trade fairs, participated in by the government, as well as by trade, industrial, and agricultural circles, and also by economists. These would coordinate policies and plans between the government and the enterprises, coordinate the economic activities of foreign trade enterprises, and establish contact and interchanges between macro- and micro-activities of foreign trade, between vertical information (government and trade policies and plans) and

the horizontal information of the market. Countries and territories with this type of system are Japan, France, Taiwan, and South Korea.

**C. Coordinated Markets.** This type is in many ways similar to coordination between planning and market. Its macro-activities in foreign trade are unifiedly controlled by the state government, and main means of administration are legislation and policies. Its micro-activities in foreign trade are also left to the people to freely organize and operate, and are predominantly governed by the law of supply and demand in the market. The main difference between the two patterns is their difference in coordination and control at the medium-range level. The different regional and trade-organized federations of commerce, federations of industry and commerce, or associations, are mainly organized freely by private industrial and commercial enterprises of the people. Their purpose is to mutually communicate market information, and to mutually coordinate activities. The government essentially does not enter into the picture to interfere, but merely provides information and guidance. Other organizations, such as trade centers and trade research organizations, are also mostly organized by the people themselves. This type of organization is to be found in countries with developed market economies, such as Great Britain, the FRG, and the Netherlands.

**D. Decentralized Markets.** The micro-activities of this type are essentially operated in a decentralized and open manner. The foreign trade activities of enterprises are governed by the law of the market. As regards its macro-activities in foreign trade, there is no centralized special guidance organization, management rights are decentralized among the various ministries and commissions of the state government or in the hands of local governments. Its foreign trade activities also lack an effective medium-range management and coordination system. The United States and Yugoslavia are typical examples of this type. In the United States, final authority in matters of foreign trade is centralized in the hands of the federal government, but the authority is then also dispersed among several relevant administrative departments of the federal government and in the hands of such departments and commissions as the tri-level trade commission, the Department of Commerce, trade delegations, the state trade commissions, the Department of Agriculture, and the State Department. In Yugoslavia, the authority in foreign trade matters is nominally centralized in the federal government's foreign trade ministry, but actually dispersed in the hands of local governments and economic federations.

## **II. Selection of a Plan of Objectives for the Structural Reform of China's Foreign Trade**

In the early days of the PRC, China emulated the Soviet pattern and established a highly centralized foreign trade system. All macro- and micro-activities of foreign trade

were directly controlled as a government monopoly. This system played a positive role in breaking the economic blockade of the West, in stabilizing the domestic market, and in building up an independent industrial system. But as production developed and the international situation changed, this organizational system was failed more and more to meet the requirements of China's developing export-oriented economy. Starting in 1979, China has instituted reforms in its foreign trade structure in the following areas: 1) Adjustment of the leadership structure, expansion of local authority to conduct foreign trade; 2) Reform of the foreign trade planning system, gradually restricting the scope of command-style planning; changing authority for foreign trade planning from the "vertical" systems and having the specialized corporations and local governments jointly take charge; 3) Improving the administrative control system in foreign trade, changing from administration by the one level of the central government to administration by the two levels of the Ministry of Foreign Economic Relations and Trade [MOFERT] and local economic and trade departments. 4) Delegating foreign trading rights to lower echelons, expanding trading rights for local regions and enterprises, establishing more foreign trade corporations; 5) Adjusting the financial system of foreign trade, instituting independent business accounting, contractual responsibility for profit or loss indices, reforming the foreign exchange distribution system, and increasing the rate at which local authorities and enterprises may retain profits for own disposal; 6) Linking industry with trade, and technology with trade, establishing export-oriented enterprises, implementing import-export agency systems and contract systems. All these items can be summed up in one sentence: the operational and managerial authority to conduct foreign trade has been delegated to lower echelons. These reform measures have to a certain degree reduced direct government participation and interference in foreign trade activities, stimulated the enthusiasm of local regions and foreign trade enterprises, and have contributed in these recent years to prosperity and progress in China's foreign trade. But in all these reforms the relationship between MOFERT and the specialized foreign trade corporations was not properly dealt with, state and local governments still interfere directly in foreign trade activities mainly by means of planning, and macro- and micro-activities in foreign trade are still not yet well coordinated. One may say that China's current foreign trade system has not yet freed itself from the planned centralized type pattern, and has not broken out of the basic "foreign trade ministry—specialized import-export corporations" framework. China must, therefore, go on to reform in depth and must select the system best suited to China's national condition.

A country's foreign trade system is closely linked with the level of its economic development and its economic organization. Central planning is frequently found suited to the planned economy of a centralized state power and a backward and closed economy. This kind of foreign trade system enables the state to maintain a firm grip on

all foreign trade activities, and to eliminate unfavorable influences from external markets, but it will at the same time prevent its own country from participating in the international division of labor and will hold up external economic development. It is for this reason that all countries who had employed this system have, in the course of economic development and improvement of external relations, sooner or later effected certain reforms of the system. The foreign trade system of coordinating planning and market is, therefore, suited to less well developed market economies, economies with a developmental strategy of export guidance, and countries with a tradition of governmental interference. Where this system is best implemented, the state's macro-controls are well integrated with the foreign trade activities of the enterprises, and there is interchange and coordination between vertical and lateral information gathering. Employment of this system, therefore, shows comparatively good results, a quick development of exports, control of imports, and good returns from foreign trade. But government interference in this system is still undesirably high, and there is a certain gap between domestic and international markets. It easily creates large trade surpluses, which then will lead to mutual attacks among trade partners. As markets are perfected and economies develop, governments should, therefore, gradually reduce and altogether cease to maintain monopolies in foreign trade, and all direct government interference in foreign trade activities should be reduced. One should rather coordinate foreign trade activities mainly by means of providing information and guidance and by economic means. The medium-range coordinating and controlling organization should shift to one that is freely and fairly organized by the people. Government should formulate laws to eliminate any possibility that foreign trade activities are conducted in a monopolistic way, and in this manner should have the foreign trade system effect a transition toward a market-oriented type system. Following the 1970's, Japan and also Taiwan and South Korea have instituted reforms of their foreign trade systems in accordance with the demands of their economic development. Of course, the market-oriented type foreign trade system has also certain shortcomings. It easily entails a rather ineffective macro-control, lack of coordination between macro-control of foreign trade activities and micro-activities of the enterprises, especially where trade partners are subject to comparatively strong government interference, inability to achieve good coordination between enterprises and between enterprises and the government, and low profitability of foreign trade. It, furthermore, easily leads to large trade deficits. The decentralized market type of foreign trade is linked with a system of market economy with dispersed authority. This system gave impetus to economic opening-up and market competition, but because this pattern lacks a market controlling department with centralized power, it leads to a dispersal of macro-control powers over its foreign trade. In this system, state government activity of controlling foreign trade exists in name only, but is without any substance. The system easily leads to inability to control imports,

inability to coordinate import and export activities, inability of export enterprises to take a unified stand toward the outside world, low profitability of foreign trade, and to an imbalance in foreign trade income and expenditure.

In view of the present level of China's economy and the objectives of China's economic structural reform, its current centralized type foreign trade system will no longer be adequate for the requirements of its developing export-oriented economy. Obviously, the decentralized market type of foreign trade system is also unsuitable for China. Because of the low level of China's productive forces, its unsatisfactorily developed markets, the predominance of the public ownership system, the coordinated market system can also not, and must not become China's goal in the near and medium-extended future. On the other hand, coordination between planning and market seems fundamentally suited to China's underdeveloped economy and meets the requirements of the planned commodity economy. China may, therefore, choose the coordination between planning and market for its medium- and long-term reform objective. At the same time, given that China's has a vast territory and huge population, its economic development has not been well balanced for all regions or industries, there is a gap between domestic and world markets, there is a sharp disparity between supply and demand, and socialist public ownership is the dominant system, China should, in the interest of fully developing its potential, establish a foreign trade system with Chinese characteristics coordinating planning and the market.

### III. The Train of Thought To Guide the Structural Reform of China's Foreign Trade

Under direction and guidance of coordinating planning and market, the structural reform of China's foreign trade must unfold in the following directions:

1) Strengthening centralized and unified control of macro-activities in foreign trade. A country's activities in its foreign economic relations is bound to have a strong impact on its industrial and agricultural production, also on the daily life of its population, and on its military, political, and foreign relations sectors. Macro-activities in foreign trade are important organic components of the state's overall macro-economic activities. Most countries of the world exercise centralized control over them, and China is no exception. Strengthening centralized macro-control over foreign trade refers primarily to the following two aspects: One is the intention to maintain uniformity and specializations in the guiding mechanism of foreign trade. In order to be able to effectively control foreign trade activities, most countries establish special leading organizations to effect unified control. For instance, in Japan unified control of macro-economic activities is exercised by the Ministry of International Trade and Industry [MITI] (locally, by bureaus of trade and industry), and the local governments only give guidance and provide service to foreign trade activities



of enterprises, but do not participate in control. As a consequence, centralized control is assured, tasks are clearly defined, and efficiency is high. On the other hand, in the United States and Yugoslavia, where control is scattered among various authorities, control has been lost over macro-activities of foreign trade. In 1979, China set up an import-export control commission and a foreign investment control commission, each exercising control over respective areas of foreign economic relations, with the result that work overlapped and control was in the hands of many different offices, while organizations were duplicated. In 1982, the State Import-Export Control Commission, the Ministry of Foreign Trade, the Ministry of Economic Relations with Foreign Countries, and the Foreign Investment Control Commission, were merged to become the MOFERT, charged with unified leadership and control of China's foreign trade and foreign economic cooperation. Besides, China is also attempting to delegate authority for foreign trade to lower levels, so that local control of foreign trade will be under the joint guidance of provincial foreign trade departments or bureaus and local governments, thus having foreign trade administered at two administrative levels. In a few provinces and municipalities, such as Guangdong and Shanghai, local foreign trade corporations are set up to control and operate foreign trade activities of the areas in question. These measures have stimulated local enthusiasm for foreign trade, but have also dispersed foreign trade control authority, led to excessive interferences by local governments in the foreign trade activities of enterprises, to fierce competition between regions, and caused decline in macro-economic profitability of foreign trade. The reform of China's foreign trade control organization should concentrate authority in the MOFERT, and the MOFERT should preserve a relative independence and authoritativeness, while all economic policies of the various ministries and commissions of the central government should be harmonized with those of the MOFERT. All local foreign trade departments and bureaus should in principle obey the leadership of the MOFERT, and local governments should be permitted only to give guidance and render services to the enterprises, also transmit information to and coordinate policies with the provincial foreign trade departments and bureaus. Import and export permits and financial subsidies shall be handled by the MOFERT, according to uniform provisions for the various trades. The second aspect for strengthening macro-control over foreign trade is improvement of the methods of macro-control over foreign trade. Formerly, China's methods of macro-control over foreign trade consisted mainly in the enforcement of state policies and command-style planning. This brought unavoidably with it the malpractices of direct repressive controls and stifling overcentralization. After 1979, command planning was gradually reduced, and the regulatory levers of guidance planning, financial administration, and bank credits were increasingly applied. These had a positive impact on the revitalization of China's foreign trade and economic relations. In future, it will still be necessary to

further reduce the scope of command planning and norms, and in order to solidly support relevant laws and policies, the government should mainly employ such means as information and guidance, import and export credits, and finance and taxation to guide and influence all foreign trade activities of enterprises, and change from direct control to indirect guidance. However, administrative means, such as command planning, import and export permits, and import and export subsidies, cannot altogether be dispensed with; they should be uniformly applied by the MOFERT.

2) Decontrolling micro-activities of foreign trade, encouraging freedom in business operations for enterprises. Since 1979, China has instituted several reforms in the system of its foreign trade operations, from adjusting the system of financial transactions, expanding the authority of enterprises in foreign trade operations, to allowing some production enterprises to directly engage in importing and exporting, linking industry with trade and technology with trade, and instituting import and export agency systems. These measures have all had a positive effect on the progress of China's import and export trade. However, these reform measures have not been able, up to now, to break the monopoly of the specialized trading corporations. They have also not been able to change the imbalance between production and marketing, and have still left industry and trade, as well as technology and trade, each going its own separate ways. They have also not been able to deal effectively with the relationship of responsibility, power, and interests as between regions, between specialized foreign trade corporations, and within the corporations themselves, a state of affairs which brought about internecine competition between regions, between foreign trade enterprises, and between branch companies of the same foreign trade corporations, which in turn adversely affected attempts to raise profitability. Besides, units engaged in foreign trade are essentially still state-owned companies and enterprises, or units owned by local authorities, which means in effect that direct administrative interference by the government cannot be evaded. It is therefore still necessary to subject China's foreign trading system to further reforms in greater depth, and have it develop in the direction of free organization and free operation of foreign trade by the people. Future reform should, first of all, reform the current system governing operation and control of specialized import and export corporations and convert foreign trading companies into true enterprises. Branch offices must be established by the main corporation according to actual needs and according to economic regions, and must be under the unified leadership and control of the main corporation. Local authorities must not interfere in the business of branch companies, but may merely provide information and service. This is the only way to avoid branch companies becoming practically independent companies owned by the local authorities, and in this way create local monopolies and internal competition within corporations. Moreover, every specialized corporation shall be permitted to engage in

intersecting lines of business, so that specialized corporations may develop into comprehensive foreign trading corporations, while the business competition between corporations could then be ironed out by industrial and commercial associations. Second, production enterprises and commercial companies that have export potential should be given the right to engage in foreign trade, so as to stimulate private individuals and economic organizations to take part in foreign trade activities. Their business activities may be conducted freely and independently under the macro-direction and medium-range purview of the state and in accordance with the rules of supply and demand in the market. Furthermore, foreign trade corporations, production enterprises, scientific research organizations, as well as financial and legal organizations should be encouraged to break down regional and special trade barriers, to organize and establish comprehensive types of foreign trade groups or trading cooperatives, so as to achieve close linkages between industry and trade, technology and trade, and between domestic and foreign trade.

3) Strengthen the medium-range coordination in foreign trade activities. Lack of a mechanism for medium-range coordination in foreign trade activities may be said to be the main cause for the occurrence of "insufficient vitality and excessive confusion," that followed China's economic structural reform of recent years. Due to the lack of a coordinating intermediary between the state's macro-control and the foreign trade activities of the enterprises, it follows that if micro-activities are deregulated while government controls are not simultaneously relaxed, enterprises will still be exposed to direct interference by the government, and it will still be difficult to revitalize micro-activities. If macro-controls are relaxed at the same time as enterprises are given full freedom to engage in foreign trade activities, it could easily end up in chaos in foreign trade activities. We cannot help stating that these are the crucial reasons why reform of China's foreign trade system in recent years was unsuccessful in both deregulating as well as in controlling, and why it would control and decontrol, advance and stop, in a haphazard way, never able to take a large step forward.

Medium-range coordination and control means effectively coordinating and linking plan (vertical information) and market (lateral information), and the activities of government and enterprises, or the activities of different trades. In Japan and the FRG, coordination of foreign trade activities is mainly achieved through organizations such as import-export associations or federations of industry and commerce, semi-official academic organizations, information organizations, trade fairs, trade centers, and import-export banks. If China wants to set up a mechanism for medium-range coordination, it must first of all organize and establish specialized, comprehensive, regional, as well as nationwide import-export associations or trade unions. These should be organized by the foreign trade corporations, production enterprises, government personnel, and relevant scholars

and specialists. Their primary task should be to coordinate the foreign trade activities of enterprises, reach unanimity through consultations in matters of pricing, quality, marketing networks, and after-sale servicing, to prevent harmful export transactions and protect the interests of their members. They should also, as a bridge between government and the people, submit to the government various suggestions and demands, and receive from the government (from MOFERT) directives and submit to its supervision. They may act on behalf of the government in issuing import and export licenses, inspect import and export merchandise, participate in various trade conferences held by the government or other organizations, and participate in preparing and formulating the government's foreign trade policy. This will help stimulate the enthusiasm of foreign trade enterprises, will be beneficial for the regular conduct of foreign trade activities by enterprises, and at the same time will enable the government to effect indirect effective control of foreign trade activities. It would also meet the demand that "government regulate the market and the market guide enterprise" and raise the profitability of foreign trade. Second, establishment of academic organizations and information service organizations with a linkage of official quarters and the people at large. In all market economy countries, academic organizations and information and service organizations have been established, participated in by the government and the people. They are primarily engaged in market research, policy studies, etc., providing data and proposals for the government to help it formulate its foreign trade policy, and at the same time to provide the enterprises with relevant information and serve as a window through which guidance may be given. Besides, governments of most countries periodically hold trade conferences, participated in by delegates from various sectors, enabling everybody to coordinate policies and exchange information. In China, some semi-official learned societies do already exist, which in the future should take on academic research, information services, and similar functions, also submit suggestions to the government to help it formulate its foreign trade policy, and to provide and transmit information useful to the enterprises in their foreign trade activities. Furthermore, MOFERT should periodically convene trade conferences, to be participated in by representatives from various industrial and commercial circles, as well as from academic circles, to improve the soundness of the foreign trade policy they will decide upon, and to ensure that their policy is in every respect well coordinated and supported. Third, establishment as soon as possible of foreign trade centers and an import-export bank. The foreign trade centers, which may be built with government funds by nongovernment builders, shall, in accordance with the government's foreign trade policy, provide overseas market information to the enterprises, arrange for enterprises to hold exhibitions abroad and in China, arrange for delegations to go abroad and market products, gain an understanding of overseas market conditions, and hold academic report and discussion meetings. The import-export bank (foreign trade bank)

may be established with joint capital from domestic financial circles and the government, and shall, under guidance of the government's foreign trade policy and financial policy, cooperate with financial institutions in China and abroad. It shall grant loans to import and export firms, offer them advice, and facilitate their financial settlements. They should, moreover, give serious attention to the study and application of the industrial policy. Industrial policy is part of medium-range economic control and is closely linked with the country's economic development, in particular its foreign trade development. Japan, the "four small dragons" of Asia and the FRG had, by means of their industrial policy, given rapid impetus to the high level development of their industrial structure, promoted foreign trade development, and raised economic returns, while their industrial policy had all the time been closely attuned to their strategy of foreign trade development. China's central and local governments must establish a rational industrial structure, guided by the strategy of reform and opening up to the outside world, and in accordance with the actual conditions and developmental demands of the various regions. The various regions and trades must mutually coordinate their investment policies, their importation of foreign capital, their foreign trade tactics, and must accurately guide the direction of investments from private sources. They must continuously improve the industrial structure, according to the changes in the domestic and the overseas economic situation, and thereby accelerate the continued stable, speedy, and highly effective progress of China's foreign trade.

#### **MOFERT Leaders Review Development Over Past Decade**

40060200a Beijing GUOJI SHANGBAO  
in Chinese 27 Dec 88 p 1

[Article: "MOFERT Leaders Discuss a Decade of Foreign Economic Relations and Trade Developments"]

[Text] *Foreign economic relations and trade have developed quickly and foreign interchanges have expanded. A structure has begun to evolve in which foreign interchange and cooperation are carried out for commodities, technology, capital, and labor in various ways, levels, and forms, and a good momentum has begun to appear that is focused on earning foreign exchange from exports and in which all foreign economic relations and trade fields are being developed in an all-round way.*

Ministry of Foreign Economic Relations and Trade [MOFERT] leaders issued a statement recently on foreign economic relations and trade developments and their role in China's modernization over the past decade of reform and opening to the outside world. It is summarized as follows:

China's foreign economic relations and trade have developed quickly along with our implementation of the policy of opening to the outside world and our economic reforms in the decade since the 3d plenum of the 11th

CPC Central Committee. In addition to vigorously developing foreign trade, increasing technology imports, and striving to improve foreign economic aid, we have also broken into certain areas that were forbidden in the past and developed new fields, such as the use of foreign capital, foreign contract projects and labor cooperation, and acceptance of multilateral and bilateral international economic and technical assistance. Moreover, we have made a series of studies in the area of foreign economic relations and trade management reform. We have also used many flexible business methods that are in widespread use throughout the world and improved our ability to compete on international markets. China's foreign economic relations and trade have now begun to evolve a structure in which foreign interchange and cooperation are carried out for commodities, technology, capital, and labor in various ways, levels, and forms, and a good momentum has begun to appear that is focused on earning foreign exchange from exports and in which all foreign economic relations and trade fields are promoting each other and being developed in an all-round way. This is shown mainly in the following six areas:

#### **1. Our Foreign Trade Volume Has Doubled and Redoubled and Our Ability To Earn Foreign Exchange From Exports Has Improved Greatly**

MOFERT statistics show that China's 1987 foreign trade volume was \$68.1 billion, or 3.3 times that of 1978. In the 9 years from 1979 to 1987, China's foreign trade volume amounted to \$446.4 billion, or 2.6 times that of the 29 years prior to reform and opening to the outside world and an average increase of 14.2 percent a year. From 1979 to 1987, exports increased an average of 15.2 percent a year and imports increased an average of 13.3 percent a year. Along with the increase in foreign trade volume, the product mix also improved. The percentage of exports accounted for by industrial finished products rose from 46.5 percent in 1978 to 61.2 percent in 1987. Of these, light textile and electromechanical product exports increased greatly and household appliance exports, such as various kinds of precision instruments and meters, complete sets of equipment, machine tools, and color TVs, doubled and redoubled.

China's foreign trade continued to maintain a good growth momentum from January to October 1988, with exports reaching \$33.48 billion or 14.6 percent more than the same period in 1987, and imports rising to \$29.08 billion or 27.5 percent more than the same period in 1987.

#### **2. We Have Made Great Advances in Our Use of Foreign Capital**

From 1979 to 1987, China used \$26.55 billion of foreign loans in various forms. It was used mainly to strengthen the infrastructure and weak links in the national economy, such as energy, transportation, communications, and raw and processed materials industries. We used



\$8.9 billion in direct investment from foreign businessmen to run over 10,000 of the three kinds of foreign trade enterprises and for development of 44 maritime oil projects.

Since China's investment climate and economic results are constantly improving, there was also new growth in our use of foreign capital from January to October 1988, during which time we used \$4.8 billion of foreign loans or 32.9 percent more than the same period in 1987, and absorbed \$1.8 billion in direct investment from foreign businessmen or 47 percent more than the same period in 1987.

### **3. Our Technology Imports Have Further Expanded and Our Technology Exports Have Begun To Grow**

From 1979 to 1987, 2,922 projects throughout China were approved to import advanced technology for a contracted volume of business of \$16.8 billion.

In the last few years, we have also changed the past situation of only importing but not exporting technology. Since 1979, the number of contracts and volume of business of China's technology exports have also increased year after year, with 180 contracts having been signed for a volume of business of \$210 million.

### **4. Our Foreign Contract Projects and Labor Cooperation Have Developed Quickly**

In the last few years, the scope of our foreign contract projects and labor cooperation has constantly expanded and their economic results have clearly improved. By the end of 1987, China's companies had launched these businesses in over 170 countries and regions, signed 5,400 contracts for a volume of business of over \$8.2 billion, completed a volume of business of \$4.6 billion, and exported 250,000 workers. China now has over 80 companies that are wholly or partially engaged in the foreign project contracting and labor cooperation business, some of which have established a very good reputation and shown a strong ability to compete on international markets.

From January to September 1988, we signed foreign contracts for a volume of business of more than \$1.5 billion or about 50 percent more than the same period in 1987, completed a volume of business of \$867 million or about 19 percent more than the same period in 1987, and prospects are very good.

### **5. We Have Achieved Better Foreign Aid Results**

Since the 3d plenum of the 11th CPC Central Committee, China has carried out a foreign aid policy of the eight principles and acting according to our capability. Based on changes in the economic development of third world countries, we have continued to give the economic and technical assistance that is within our power to certain countries that are in great difficulty. We have mainly helped them to set up certain projects that obtain quick

results and good economic and social results, emphasized increased training assistance, such as personnel training and acceptance of students to study in China, and improved and consolidated the accomplishments of existing economic assistance projects. Moreover, based on the principles of "equality and mutual benefit, striving for practical results, diversified forms, and common development," we have actively developed many kinds of mutually beneficial cooperation with third world countries. Both the economic and social results of our aid have improved and been praised throughout the world.

### **6. Our Other Diversified Multilateral and Bilateral Economic and Technical Cooperation Have All Made New Advances**

From 1972 to 1987, China contributed 29.11 million yuan and \$23.41 million to UN development organizations and, from 1979 to 1987, we received actual aid from UN departments of more than \$300 million. If aid from the World Grain Planning Office and food organizations were included, this figure would be much higher. Since 1981, China has also begun to receive free economic and technical assistance from the governments of certain friendly countries.

In summary, since the 3d plenum of the 11th CPC Central Committee, China's foreign economic relations and trade have developed more quickly and broadly and to a greater extent than ever before. Our development of foreign economic relations and trade has played a diverse and positive role in China's economic and social life. This can be seen mainly in the following areas:

1. It has vigorously promoted development of our domestic industrial and agricultural production. The means of production that China imports every year accounts for 80 percent of our imports. Most of it is products that are in short domestic supply, rare goods and materials, and advanced technical equipment.

2. It has supplemented China's inadequate construction funds and strengthened the weak links in China's key projects and national economy. In the past few years, China has used foreign loans (mainly from foreign governments and international financial organizations) to build over 200 projects, about 60 percent of which are in transportation, energy, and communications. These projects have played a very positive role in alleviating China's overloaded transportation and communications facilities in certain areas, improving and stabilizing energy production and development, and supporting raw and processed materials industries. We have used World Bank loans to finish a college development project, three harbor projects, and the north China plain agricultural project, achieving good results in all.

3. It has imported advanced technology and management expertise, speeded up our technological transformation, filled in certain gaps in China's technology, and

enabled our production technology for certain important projects to be gradually modernized. In the past few years, through importing much advanced technology and equipment in a broad range of industries, such as metallurgy, light industry, textiles, machinery, electronics, and shipbuilding, we have set up a number of key projects with advanced technology of the late 1970s and early 1980s, such as the Baogang steelmill in Shanghai, the Ningguo cement plant in Anhui Province, and a kinescope factory in Xianyang. Importing this technology and equipment has changed the technical look of some of China's enterprises, speeded up our rate of technical progress, and improved our self-development ability. Moreover, through measures, such as using foreign capital, accepting foreign economic and technical assistance, foreign contract projects, and labor cooperation, we have also imported and learned certain advanced technology and management expertise and trained a number of talented personnel.

4. It has increased our national revenue and accumulated funds. For example, our customs duties are collected mainly on foreign trade goods. From 1950 to 1987, 134.2 billion yuan was paid in foreign trade duties alone, increasing our net national revenue by over 70 billion yuan.

5. It has increased our employment and been favorable to the consolidation and development of our stability and unity.

6. It has increased our supply of commodities and enriched and invigorated our domestic markets.

In addition, foreign economic relations and trade activities have broadened the horizons and increased the knowledge of vast numbers of cadres and their effect on China's reforms and economic development cannot be underestimated. Moreover, foreign economic relations and trade development has vigorously coordinated China's foreign affairs work and also contributed to China's struggle to modernize and establish a peaceful international environment.

#### **Annual Conference Discusses Current Challenges, Possibilities**

40060226c Shanghai SHIJIE JINGJI DAOBAO  
in Chinese 26 Dec 88 p 2

[Article by correspondent Shen Yejun 3088 0673 0689:  
"Roundup of International Trade Association Annual Meeting"]

[Text] This year's Chinese International Trade Association annual meeting differs in many ways from last year's meeting. The correspondent observed that discussions of issues, both inside and outside sessions, were not just debates about academic points of view, but had more realistic significance in terms of actions to be taken.

One hot topic of discussion was the current trend toward the formation of economic blocs and regions in the world. This trend will increase limitations on imports from outside blocs, and this will doubtlessly pose a challenge to China's development of an externally oriented economic strategy. Nevertheless, there are still many factors favorable to China. The current readjustment of the world industrial structure and the increasing international division of labor provide favorable opportunities for China's development of an externally oriented economy. The virtually unanimous view of attendees was that for a certain period of time, China can simultaneously adopt an integrated and pluralistic foreign trade development strategy that is export-guided and in which imports are substituted depending on the different level of development of different regions and different industrial sectors. Later on, it can shift to a primarily export-guided development strategy.

In discussions of a development strategy for China's coastal areas, many attendees said that the role of inland provinces and regions in the development of foreign trade should not be overlooked. Regions in the middle of the country should apply techniques from the eastern part of the country to inspire the western parts of the country, and devote themselves to providing goods for the domestic market. They should establish a mutually reinforcing internal and external economic development model in which the development of a primarily internally oriented economy is paramount. This combination internal and external road of economic development is a "returns growth type" road of development, and it is also a road that areas in the middle of the country have to take in order to rise.

Yet another topic of intense debate was how to evaluate the foreign trade contract responsibility system instituted during 1988. Some of the attendees maintained that this system helps overcome the excessive concentration of authority in the old system, and the disjunction between operations and business accounting. It helps stir the enthusiasm of local governments and businesses to expand foreign exchange-earning exports, and it also helps increase economic returns from foreign trade. It is a rather good choice of plans under present conditions.

An overwhelming majority of attendees held that reform of the foreign trade system, primarily through local contracting, is a reform carried out under the overall rubric of treasury support for the system of a separation of responsibilities, control over banking, investment, the distribution of foreign exchange and production being further delegated to local governments. Since this reform has not yet affected the fundamental shortcomings of the old system, conflicts between exports made and returns realized after contracting have not yet been solved. Conflicts have been simply pushed downward to lower echelons, which is to say that the national "large pot" has become a local "medium size pot." Although this action has stirred a certain amount of local enthusiasm, it has cut interregional economic links and divisions of labor,

and it has cut up regions and markets even more. It hurts the formation of unified domestic markets, and it hurts the rational allocation of resources.

Some attendees noted that the matter of most crucial importance to coastal areas institution of an export-guided development strategy is to link exports and returns, optimizing the relationship between a widening of the scale of imports and allocation of resources. The key to success of coastal areas development strategy lies here. Accommodating the national economic strategy goals to the already formed system of a division of authority among various jurisdictions makes it difficult to meet the requirements of the national economic development strategy. It would be preferable to use the system to meet the strategic goals in national economic development. This would require taking the road of unified markets, the strengthening of macroeconomic control mechanisms, and the establishment and carrying into effect of industrial policies. Others also maintained that when the state considers and formulates macroeconomic industrial policies, and particularly when it formulates industrial policies pertaining to the development of foreign trade, not only should there be pervasive and painstaking investigation and study of the background, present state, and trend of development of the domestic industrial structure, but both a scientific analysis and a forecast should be made about the trends of development in the industrial structure of the world, as well as changes in the development and patterns of world trade.

In analyzing the tremendous rise within a very short time of procurement prices for export goods in China during the past several years, the conference concluded that this abnormal rise was attributable primarily to the "large common pot" financial system, and to the unfair competition between one region and another and between one enterprise and another. The various existing unfair policies must be rescinded, and various forms of subsidies must also be gradually abolished to make a transition over a period of time. Finally an exchange rate regulatory mechanism that is in keeping with changes in international and domestic markets should be established, enterprises engaged in foreign trade thereby genuinely becoming responsible for their own profits and losses.

**MOFERT Vice Minister on Reform of Foreign Trade Enterprises**  
40060169 Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 11, pp 6-9

[Article: "Several Issues Pertaining to China's Reform of Foreign Trade Enterprises; Comrade Li Lanqing Comments on Foreign Trade Enterprise Reform"—first paragraph is source-supplied editorial note]

[Text] [Editor's Note] Reform of the foreign trade system is not only the concern of foreign trade enterprises but also production enterprises. In the interest of the general public, this journal has solicited an article from Comrade Li Lanqing [2621 1526 3237] of the Ministry of Foreign Economic Relations and Trade [MOFERT]. This article is

*invaluable in helping the readers understand foreign trade and in guiding the reform of foreign trade enterprises.*

China's foreign trade enterprises generally fall into three categories: one, national, specialized foreign trade controlling companies; two, local foreign trade controlling companies and provincial-level foreign trade controlling companies; three, prefectural- and city-level foreign trade companies. Since 1979, in the wake of the foreign trade system reform, some qualified local enterprises and manufacturers have also been given permission to conduct foreign trade, thus ending the monopoly over foreign trade. Foreign trade companies are no longer the subsidiaries of the various specialized foreign trade companies or the provincial government. Numerous foreign trade companies have emerged at the provincial level and the prefectural-city level. By mid-1988, nationwide, there were already more than 800 foreign trade enterprises of all types, and if we include the transportation, storage, consulting, and information companies which offer related services, they numbered around 1,200. Across the nation, enterprises which have won the right to conduct foreign trade make up one-quarter of all foreign trade enterprises. These enterprises are the mainstay of China's foreign trade. They play an important role in boosting our export and foreign exchange earnings, regulating the surplus and deficiency in the domestic market, bringing in advanced technologies and equipment from abroad, and promoting the development of the national economy and science and technology. Yet, in the long-run, China's foreign trade enterprises are operating under an inadequate foreign trade system, and their development is seriously handicapped.

The main problems in China's foreign trade system are: one, the foreign trade enterprises are not independent economic organizations. China's foreign trade system is built on and has grown out of the combination of a product economy and a monolithic state planned economy. All along, it has been a system of "eating out of the same big pot" where the state has taken care of the profits and losses. The foreign trade enterprises' priority is to guarantee the fulfillment of the state plan. They are like, but not like, a managing department; they are like, and yet not like, an institution. They are very peculiar economic organizations. On the matter of business administration, externally, they act as independent legal entities when doing business, but internally, they practice a financial system where the state takes care of profits and losses, and they are reimbursed by the government for their expenses. With respect to the way they operate, in order to guarantee the fulfillment of the state's mandatory import-export plan, the specialized import-export headquarters system is more or less a monopoly; it is also in charge of the management and coordination of some specialized import-export businesses. On the matters of management of enterprise



personnel and so on, in some ways, they are like institutions. In short, foreign trade enterprises are not bona fide enterprises. Two, foreign trade enterprises are not responsible for their own profits and losses. All along, because of the monolithic state planning, and because the state has always taken care of the profits and losses, the foreign trade enterprises have never been profit-oriented business units. They have developed a dependence on the state's "subsidies" and have always been treated as "unprofitable enterprises." Three, neither the way these companies are organized nor the way they function has prepared them to compete in the international market. Because of China's improper pricing system, and because the state has always taken care of the foreign enterprises' profits and losses, it has become necessary to determine the "export cost" for each category of products and verify and settle each enterprise's profit or loss based on those figures, and therefore the operating scope of the enterprises has to be strictly defined, otherwise, some enterprises will take advantage of the unfair conditions to compete recklessly, forcing prices up and down as they compete to buy and sell goods. But in reality, not only is it difficult to define the scope of specialization scientifically but the specialized foreign trade companies too are flawed in many ways. For example, they are good only at one-way trade and often miss many two-way opportunities; they have not developed a balanced import and export business, and some companies are primarily importers while others are exporters only; in a product economy, and under the state's monolithic economic planning, fulfilling the procurement, import and export, and distribution tasks are less of a problem, but with the fast growing planned commodity economy, these specialized companies are less and less able to cope with the pluralistic and diversified form of trade.

In recent years, reforms have been implemented to address the above problems. For example, instead of the branch companies in provincial cities contracting with the specialized controlling companies, we are changing to a system of provincial cities and districts contracting with the central government. We also have separated some government and enterprise functions. But these are only important first steps. How to reform foreign enterprises more thoroughly remains to be the key issue.

#### **Reform Should Mean Operating Foreign Trade Enterprises as Enterprise**

In his report to the 13th Party Congress, Comrade Zhao Ziyang said that reform of the foreign trade system should "take responsibility for profits and losses, decontrol business operations, integrate industry and commerce, and promote the agent system." At the heart of Comrade Zhao Ziyang's instruction is the issue of financial responsibility. Only if enterprises take care of their own profits and losses can control over their business operation be lifted, and only then can the import-export agent system be implemented and industry and commerce be integrated. Only then can we form a united

front to face the outside world. The main reasons are: one, if enterprises do not take financial responsibility, their operation cannot be decontrolled. The root cause of the fierce price wars and the cutthroat competition in recent years is the failure of enterprises to take care of their own profits and losses, and therefore financial responsibility is the prerequisite to decontrol. Two, being financially responsible is also the basis of fair competition, without which competition will mean ignoring economic consequences, and as a result, the state will lose out and profits will drain. Three, only if enterprises take care of their own profits and losses will economic performance improve. If enterprise profitability is directly linked to the benefits of the company and its workers, it will encourage them to compete and invite public bids, and so on, to build a better company and improve administration and management, and only in this way can their operation become internationalized.

Because China does not have a proper pricing system, it is very difficult to replace the system of profit deliveries with a standardized tax system in enterprises and make them take care of their own profits and losses. But we cannot wait until the pricing system is completely straightened out before changing the system of "eating out of the same big pot." To resolve this situation, meanwhile, we are making use of the contracted management responsibility system to let enterprises take care of their own profits and losses if they can. This reform measure reasonably resolves the conflict of interests between the central and local governments over financial matters and reinforces the financial constraints. At the same time, it is also an important step in making China's foreign trade enterprises operate as enterprises should. It is a uniquely Chinese reform measure. We should, one, implement this reform diligently, and two, deepen and perfect the reform process continuously and take advantage of the management contract system to solve the problems in enterprises' internal operating mechanism and business management.

#### **Strive To Help the Foreign Trade Enterprises Become Comprehensive, Multi-Purpose Enterprises**

Dividing the foreign trade system into specialized companies according to major product categories is the result of the commodity economy and the country's monolithic planned economy. With the development of the planned commodity economy, this method has become increasingly incompatible with the pluralistic, diversified form of trade. Therefore, in the long-run, China's foreign trade enterprises should become more comprehensive, more or less resembling Japan's commercial agencies. But, this will require taking steps to create the right conditions: we must abolish all import-export "subsidies for price differentials" and make enterprises responsible for their profits and losses, eliminate the unequal treatment between foreign trade enterprises with respect to foreign exchange retention, among other things, to enable competition on more or less equal footing, and strive to train and nurture qualified personnel to meet the needs of the

comprehensive operation. Until we meet all of the above requirements, we must still restrict the operating scope of the foreign trade enterprises. At the same time, we should point out that in the future, even if enterprises begin to fulfill comprehensive functions, it should not be construed as the total rejection of specialization and division of labor, because some foreign trade enterprises have a lot of experience handling a particular kind of product. We must look at the benefits a business generates first. The trend indicates that probably, despite diversification, most foreign trade enterprises will specialize in one type of business. In the wake of reform of the foreign trade system, our foreign trade enterprises must not go on being simple trading units. They will have to develop into multi-purpose enterprises, that is, they must consider the needs of the development of foreign trade and the factors which are in their favor. They must integrate and combine the merits of industry and trade, agriculture and trade, and technology and trade to develop joint operations. In these joint operations, the foreign trade enterprises will contribute some funds to help the production units bring in vital technologies and equipment and bring in product designs that are highly marketable in the international market; they will also help market these goods. In this way, the production units will be able to undergo technological transformation and are assured of fairly dependable overseas markets, and the foreign trade enterprises will have a fairly steady supply of merchandise. For some agricultural and sideline products destined abroad, we can integrate agriculture and commerce and set up some export bases. We can start with improving the breeds and use more scientific and effective methods to produce and export the products. This will benefit both agriculture and commerce. Another way to integrate industry and trade, technology and trade, and agriculture and trade is for the foreign trade enterprises to cooperate with and serve the larger manufacturers of export-goods or the import-export department of the conglomerates. The main form of industrial-commercial, agricultural-commercial, and technological-commercial joint operation is joint-investment and joint-management, and if necessary, these arrangements should not exclude some wholly-owned enterprises run by the foreign trade departments. It is obvious that the core of the diversification of foreign trade enterprise is industrialization.

#### **The Agency System Will Be One of the Major Forms of China's Foreign Trade**

The relationship between the manufacturers and the foreign trade enterprises is reflected in the primary forms of foreign trade operations: the procurement system, the agent system, and direct exporting by the manufacturers of export goods.

At present, the procurement system is the primary method used in China's foreign trade. Its main defects are: one, it does not comply fully with the basic principle of a market economy which lets sales determine production. To produce the goods before there is a foreign

market means sometimes the goods are marketable and sometimes they aren't. This leads to excess stockpile and waste. Two, the manufacturers of export commodities have no direct channel of communication with the foreign customers. Three, the manufacturers of export goods and the foreign trade enterprises do not share the same interests, creating conflict and antagonism. Therefore, although some export goods must be procured for export, most products, especially manufactured goods, should not follow the procurement system. Manufacturers of export goods (mainly the large and mid-sized enterprises) and enterprise groups should be allowed to enter the international market directly and export their own goods if they have to and if they are so qualified. This will help improve the quality of China's enterprises and make our export goods more competitive. But, because the system is constrained by attached conditions, it should not be universally applied. Judging by the way things have developed, the agent system will be one of China's main forms of foreign trade. Simply, in an agent system, the foreign trade enterprises act as a go-between to assist the manufacturers in negotiating and signing contracts, help them win favorable terms, and handle the necessary commercial formalities. Whether the negotiated prices and other conditions are acceptable is the decision and the responsibility of the production units themselves who are also responsible for their own profits and losses. The foreign trade enterprises can only charge a reasonable agent fee and assume the responsibilities stipulated in the agent agreement. Consequently, the agent system will neither interfere with the direct relationship between the manufacturers and the international market, allowing the manufacturers to compete in the international market directly and gather information, nor does it necessitate the employment of many foreign trade professionals to make exporting more profitable. In addition, it unifies the interests of the export-goods manufacturers and the foreign trade enterprises and allow them to work together with one heart and mind.

The transition from the procurement to the agent system will be a big change for the foreign trade enterprises. We must consciously adapt to this change. To promote the agent system, we must work hard to raise the standard of the foreign trade enterprises, improve their marketing ability, and focus our effort on developing the international market.

#### **Overcome Bureaucratic Workstyle, Establish Firmly the Concept of Putting Our Reputation First**

Most of China's foreign trade markets are capitalistic markets whose business activities are constrained by market mechanisms, and therefore we must watch the market movements every minute and have ready the hot-selling export goods so that we can export whatever the market demands. We must abandon the antiquated idea of "let production determine sales" guide productions and "let sales determine production" guide the way we market goods. We have to focus our attention on

researching market changes and market demand. We must be able to device strategy anytime, anywhere, and be able to guarantee quality and quantity in a timely fashion to meet market demand. Therefore, we must establish a concept of putting our "reputation first" to attract customers and enhance our enterprises' ability to compete in the international market on the basis of their reputation. Developing competitive and marketable merchandise is the basic step in promoting our foreign trade and export. This is the responsibility of the manufacturers, but it is a responsibility which the foreign trade departments must share. Reform mandates that our foreign trade enterprises amend their bureaucratic workstyle. The basic characteristics of bureaucratic workstyle is the abuse of special administrative authority and the ignorance of economic benefits. When enterprises become financially responsible and their business operation is decontrolled, the competitive mechanism will do away with the bureaucratic workstyle. After the competitive mechanism takes over, the foreign trade enterprises will have to offer their customers efficient, high quality, low cost service in order to survive and grow. We can seize the initiative only if give some consideration to these problems immediately possible and amend our business workstyle before it is too late.

Another important way to enhance the reputation of our foreign enterprises is to "honor our contracts and keep our promises." When we enter a contract, we must ascertain our ability and maintain a serious attitude. Once a contract is signed, we must fulfill it to the letter; we must not find excuses to breach the contract or unilaterally change the terms. This is the basic legal and moral standard of international trade. We must diligently adhere to the principle of "honoring our contracts and keeping our promises," and we must not do anything to damage our international reputation.

At present, China already has many foreign trade enterprises, so it is not a question of adding more but a matter of improving their quality. Most of our foreign trade enterprises are good to fairly good, but because of the untrained staff and the inability to separate government and enterprises, a few enterprises are neither helping the nation's foreign trade grow nor contributing to our foreign exchange earning; instead, they are abusing certain special administrative and economic authorities to engage in speculation and profiteering and raise havoc in the domestic and foreign markets. We must crack-down on these enterprises and revoke the management rights of those who break the law and violate discipline, and we must investigate and punish those who are responsible. During the shake-up, no new foreign trade enterprises should be added.

Finally, we should emphasize that the direction of the reform of the foreign trade system is basically clear. First, we must actively create the proper conditions, and second, we must achieve the reform goals step by step. For example, before we proceed to revamp the foreign trade enterprises, they must first make use of the contract

system to become financially responsible and operate independently and set up a complete set of contract mechanisms internally. Only by having these mechanisms can we begin to talk about other reforms, and only by abolishing the "subsidies for price differentials" can we eliminate specialization and division of labor and operate comprehensively. The transition from the procurement system to the agency system should be systematic: shift one commodity to the new system when it is ready; move one enterprise to the new system when it is mature, and meanwhile, the responsibility to earn more foreign exchange and improve economic performance should be shifted to the manufacturers of export products to avoid unnecessary loss due to disruptions. We must not overreach ourselves in the effort to diversify and internationalize the foreign trade enterprises; we must proceed in steps and must not rush headlong regardless of conditions. All these reforms are hinged on our personnel. Only if we have the people who are fluent in foreign languages, who are proficient in international trade, business administration, finance, accounting, law, banking, insurance, transportation, and so on can we accomplish what we set out to accomplish with foreign trade and foreign trade system reforms. We must produce some quick results in personnel training. At present, China is making every effort to bring the economic climate under control, shape up the economic order, and implement more thorough reforms. All foreign trade enterprises must diligently carry out the pertinent measures the state has enacted, adhere to the state's general and specific policies, and abide by the state's legal system, consider the interest of the country as a whole, work hard, and contribute their share to the healthy development of China's foreign trade.

**Improving System by Better Accounting, Contracts**  
40060188 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 11, 30 Nov 88 pp 9-13

[Article by Wu Zesong 0702 3419 2646: "Improve the Foreign Trade Financial Accounting System and Perfect the Foreign Trade Contracted Management Responsibility System"]

[Excerpt] In 1988, China began to implement in full the foreign trade contracted management responsibility system, ending foreign trade's age-old dependence on the state's "big pot." The thorough reform of the foreign trade system is demanding more of the country's financial accounting system, and how to improve foreign trade financial accounting and apportion the responsibilities, rights and privileges among the state, enterprises, and individuals and give play to positive factors have become urgent foreign trade issues to be examined and resolved. Based on my many years' experience in the foreign trade financial accounting department, I have reviewed the defects of the old foreign trade system and analyzed the pros and cons of the present foreign trade contracted management responsibility system, and I am



offering some of my own shallow views as my small contribution to the advancement of China's foreign trade system. [passage omitted]

#### **The Pros and Cons of the Present Foreign Trade Contracted Management Responsibility System**

Since 1988, China has implemented the foreign trade contracted management responsibility system nationwide. With respect to the financial system, it means the state will no longer "take care of revenue and expenditure, loss and profit, and everything else." Some businesses are already taking care of their own profits and losses. The state no longer gives them any RMB subsidy but gives them certain preferences in foreign exchange retention. As for businesses that still receive RMB subsidies under the state plan, the state has adopted a policy which does not subsidize excess losses but allows enterprises to keep the "profit" in loss reduction and also keep a percentage of the above-plan profit. This policy encourages foreign trade enterprises to take care of their own profits and losses and to export more and earn more foreign exchange. With respect to the system of economic planning, instead of the Ministry of Foreign Economic Relations and Trade [MOFERT] handing down a double track plan to the local economics and trade departments (committees) and to the various specialized companies, there is a single track alongside the double track. The scope of mandatory planning has been further reduced, and more product categories are under guidelines or are decontrolled. The number of planned product categories has been reduced from 120 to 112, 91 of which are under guidelines and only 21 are under mandatory planning. The rest of the products have been decontrolled. With respect to the foreign exchange allocation and management system, foreign exchange retention of the contracted profit base is divided into approximately 18 grades based on locality, industry, and product category. To bring every positive factor into play, the 1988 reform of the foreign trade system has maintained the present foreign exchange retention ratio of the contracted profit base, but has evened up the retained percentage for above-plan profit, applying the "inverse 2:8 ratio" formula, that is, 20 percent goes to the state and 80 percent is kept by the locality. As for the foreign trade administration and management system, government and enterprises are no longer tangled up. MOFERT primarily makes macroeconomic adjustments, and the specialized foreign trade company headquarters and subsidiaries are its partners. Major reform of the foreign trade system and the comprehensive implementation of the foreign trade enterprise contracted management responsibility system in 1988 have halted foreign trade enterprises' perennial practice of "eating out of the state's big pot," untangled the relationship between government and enterprises, and decentralized foreign trade. Responsibilities, rights, and privileges are allocated between the state and localities, between localities and foreign trade enterprises, and between foreign trade enterprises and enterprise workers via three separate norms: the export and foreign

exchange earning target, the cost of exporting to earn exchange, and total profit or loss. Attainment of the target is linked to reward at every level so that everybody bears his responsibilities, tries his best, and gets his share of the benefits. In this way, the foreign trade enterprises and the workers will become more enthusiastic, experience more pressure, and attach greater importance to economic performance and economic accounting.

At the 13th Party Congress, Comrade Zhao Ziyang said, "in order to further expand foreign trade, we should firmly and systematically reform the foreign trade system and go in the direction of letting foreign trade enterprises take care of their own profits and losses, decontrolling foreign trade, integrating industry and commerce, and promoting the agent system." The comprehensive implementation of the foreign trade contracted management responsibility system in 1988 is a big step in this direction. But we should point out that the contracted management responsibility system should not be the final goal of the reform of the foreign trade system. That is a system created to suit the early stage of socialism in China. Compared with the old practice of "eating out of the big pot," the foreign trade contracted management responsibility system no doubt is a significant reform, but it has its defects. Only by analyzing every aspect objectively can we understand the system fully and adequately and be prepared for the unexpected:

One, the determination of the contract base: To implement the contracted management responsibility system, first, we must determine the contract base. At present, the decision is based primarily on local conditions and on each foreign trade enterprise's prior conditions; therefore, the contract bases vary among regions and enterprises. Regions and enterprises which have performed well in the past tend to have a high contract base and those which have performed poorly in the past have a low contract base. This is unfair, and it ties the hands of foreign trade enterprises—good performance at first means a higher contract base and greater pressure on enterprises and workers later.

Two, foreign trade enterprises' short-term behavior: Under the contracted management responsibility system, the contract term often is fixed. Leadership and worker performance in the contracting enterprises are assessed based primarily on how well they fulfill their contracts. As we know, we cannot really assess an enterprise's overall operation just by looking at a few norms in the contract. Often, because enterprises are so anxious to fulfill their contract duties, they are unwilling to make long-term investments, such as to upgrade their facilities, develop new products, or spend more on promotion and advertisement. They are only interested in the contract targets and the near-term profit.

Three, externalities in contracted management: To overcome the contracting enterprises' short-term behavior, the contract period should be extended. For example, at present, most contracts carry a fixed 3-year term. But the

contract targets are based on external conditions in existence 1 year prior to the contract. To best fulfill the contract duties, the external economic factors must remain basically unchanged; otherwise, the targets cannot be attained, not because of poor enterprise management but because of external conditions. This will discourage many enterprises and workers. But if we constantly revise the targets and shorten the contract term because of changing external conditions, both parties to the contract will be constantly negotiating, and enterprise short-term behavior will resurface along with other problems, and the contract targets will be trivialized. Foreign trade is the intermediary between a country's domestic economy and the international market. It is the confluence of the country's economic factors. Any change in international market conditions and domestic economic factors will immediately affect foreign trade enterprises' ability to attain the contract targets. In recent years, especially, inflation has been rampant. Higher domestic prices and the sharp drop in the prices of some goods in the international market inevitably will increase the foreign exchange cost of some export products, undermining enterprises' ability to fulfill the contract duties later on.

Four, rigid separatism prevails: The core of the reform of the foreign trade system is the separation of government and enterprises to let the foreign trade enterprises take care of their own profits and losses and to decontrol foreign trade. But today, upon receiving their contracts from the State Council, the provinces, cities, and prefectures in turn break down the duties and contract out to every level in accordance with state or local convention. At present, conditions vary among provinces and cities. Some provinces rely on state regulations, some rely on local regulations, and others combine state and local regulations when contracting. Qualified regions may comply with state rules, and the unqualified make do with local rules. Contracting based on state rules and regulations hampers efforts to decontrol foreign trade, increase competition, and implement the foreign trade enterprise agency system. Contracting based on local convention reinforces local governments' administrative interference and leads back to the tangled relationship between government and enterprises and undermines reform effort to let enterprises run their own business.

Five, anarchy and alienation: Since the apportionment of responsibilities, rights and privileges of the contracting units at each level and of the individuals is based on their respective ability to attain the contract targets, after a contract is signed, everybody worries about himself and is completely alienated from the others. Each region, enterprise, and individual focuses on his own contract target, and nobody else has a right to interfere. Under the circumstances, if the departments at every level fail to coordinate macroeconomic control, the benefits of foreign trade as a whole will be jeopardized. Moreover, because China has always had a planned economy and the people have yet to get used to the concept of a commodity economy, they are not fully prepared for the

kind of competition in the international market. Exporting is a complicated task. An exporter not only must be familiar with the domestic conditions but must comprehend the international market situation and be familiar with international trade practices and methods. In international trade, it is a long and complicated process from the time one enters into business negotiation to the fulfillment of contract obligations to the time the business finally is paid in full. It entails cost accounting, price quotation, the signing of contracts, getting the products ready, shipping, and exchange settlement. One mistake in any of the links may lead to a loss. Therefore, it is inadequate just to set a few targets and let the localities and the foreign trade enterprises export goods on their own. And if some regions and enterprises fail to ascertain their own strength and insist on leaving the foreign trade system and operate their own export, their poor economic performance can be anticipated.

Six, some tasks cannot be assessed by setting contract norms: The assessment of whether a contractor has fulfilled his contract obligations is based primarily on whether he has attained the contract targets. Before the contracted responsibility system can be implemented, target for each project must be set up first. But there are no standards for some tasks. For example, it is impossible to assign quotas to many jobs in the comprehensive department of a foreign trade enterprise. If some workers are rewarded because they have accomplished their tasks, other in the same enterprise will be demoralized. But if bonuses and incentives are handled out uniformly, no doubt it will discourage those workers who have worked harder than others.

In short, based on the above analysis, compared with the old foreign trade system, the contracted management responsibility system is a big step forward. But many defects remain. Because China's present productive level is low, the commodity economy has not yet flourished, and the productive relationships still need to be modified and perfected, in the short-run, the foreign trade contracted responsibility system is the best way to further the foreign trade system reform process. So, how to enhance the foreign trade financial accounting system and perfect the foreign trade contracted management responsibility system have become urgent foreign trade issues.

#### **Some Thoughts on the Improvement of the Foreign Trade Financial Accounting System and the Perfection of the Foreign Trade Contracted Management Responsibility System**

This is the first year of the comprehensive implementation of the foreign trade contracted management responsibility system nationwide. Between January and May, the nation has exported \$16.243 billion worth of goods, completing more than 54 percent of this year's plan and exporting 15.8 percent more goods than last year during the same period. This proves that at the present stage, implementing the foreign trade contracted management

responsibility system is a practical and workable way to reform the foreign trade system. To further perfect the foreign trade contracted management responsibility system, I have a few tentative suggestions from the standpoint of foreign trade financial accounting which focus on the problems just analyzed:

### *1. Put Additional Norms on the Contract Where Possible*

At present, the three contract norms tend to emphasize enterprise short-term profits and have given rise to enterprise short-term behavior. In determining the contract norms in the future, the contracting units at each level should add new targets when possible to make enterprises pay attention to the current contract targets as well as their long-term profits. Units which assign the contract norms can organize groups to make evaluations at the end of the contract period. By considering the different conditions and the importance of the targets, a coefficient can be determined to convert other contract targets. We should encourage enterprises to make investments which generate long-term benefits rather than force them to deliver quick results, and we should use the conversion coefficient with flexibility to fit different times.

### *2. The External Factors*

To overcome the short-term behavior of the contracting units, some foreign trade enterprises have been given fairly long-term contracts. Under the circumstances, if conditions beyond enterprises' control should change, the contract targets cannot be attained, unless they have been too low. This undermines the validity of the contract targets. Therefore, in setting the contract targets, we must consider fully changes in the domestic and foreign price levels, credit availability, interest rates, exchange rates and other economic factors during the contract period to make sure that the contract targets have valid bases and can be modified as external economic factors change.

Product prices in the domestic and foreign markets constantly change with the supply-demand conditions and other factors. In particular, since the price decontrol in this country, most product prices have gone up; some prices have increased substantially. Furthermore, the prices of some products in the international market are also changeable. If these factors are overlooked, many contract targets will not be met because of outside factors, and many contractors will be discouraged. Therefore, in setting the contract targets, it is imperative that we give adequate consideration to future price changes in the domestic and foreign markets. Since the 1988 contracts are about to expire, the contracting enterprises should keep track of the buying and selling prices of their major products at home and abroad and analyze carefully the effect of a price change on the cost of export and their profit or loss so that they can provide information for future adjustment of the norms.

### *3. Improve Economic Accounting and Perfect Enterprise Internal Contracting*

With the contract system, after the responsibilities of enterprises and state have been separated, the main problem facing enterprises is the internal apportionment of responsibilities. The present foreign trade enterprise accounting system does not allocate cost properly. Under the existing system, direct costs are assigned to each product and indirect costs are apportioned based on the cost of merchandise sold in the current period. Among the indirect costs, interest payment to banks is apportioned based on the purchase price of merchandise plus the average amount of commodity funds used in the current period. The more of a product sold in this period, the bigger the share of the indirect cost; conversely, a product may have a huge stockpile, but if there is little or no actual sales in the current period, little or no indirect cost will be allocated, and the cost attributable to that product is shifted to other products. In addition, cost entailed in the use of settlement funds, such as bank interests, is not apportioned by product. As a result, the accounting of the export cost of goods is not truthful.

To a foreign trade enterprise, the product distribution cost is the most important item second only to the purchase price of merchandise. Managing and accounting for these expenses more carefully is an important way to lower the export cost. Take an import-export company in a certain province as example: expenses rose from 5.69 percent in 1984 to 8.68 percent in 1986 (self-operated export,) and bank interests made up a substantial portion of that: interest payment made up 40.52 percent of the total expenses in 1984 and 78.95 percent in 1986, and interest payment made up 2.61 percent of the total cost in 1984 and 7.47 percent in 1986. In absolute and relative terms, interest payment is a fairly significant cost.

No separate sections (offices) have been set up to manage and set quotas to control other expenditures like transportation, sundry, storage, sample and promotion, conference, and entertainment.

The continuous cost increase is due partly to prices and other external factors but primarily to poor enterprise management, careless merchandise purchases in previous years, the stockpile of unmarketable goods, the unchecked increase in the use of commodity and settlement funds, and sheer extravagance and wastefulness. They are in turn attributable to the habit of "eating out of the big pot" and poor accounting practices and ignorance of economic result.

To remedy the situation, I suggest that we further refine enterprise internal economic accounting and perfect the contracted management responsibility system. First, we should separate an enterprise's business sections into several accounting divisions and apportion the products,



sales, expenses, domestic and foreign account settlements, tax refunds and others among the business sections according to product categories to be managed "in separate kitchens" and kept in separate accounts.

We must set an expense quota for the comprehensive department to keep costs under control. Some expenses, depending on the situation, can be put under contracted percentage retention which allows the departments to retain all monies saved but deducts their bonuses if they over-spend.

Indirect expenses such as advertisement and sample promotion, conferences, entertainment, business trips, wages, and benefits which are directly identifiable should be allocated to the responsible business section for accounting. Expenses which cannot be directly identified can be apportioned in different ways depending on the situation: interest due banks can be apportioned among the business sections based on their average use of commodity fund and settlement fund; products not sold during the current period can be assigned a nominal share. Other indirect expenses that cannot be directly identified can be apportioned and attributed to product cost in each business section based on the cost of merchandise sold plus the average use of commodity funds in the current year.

In this way, we can control the unnecessary expenses and correct the present cost accounting and apportionment methods to perfect enterprise management and give play to the initiative and the zeal of the business departments.

#### *4. Improve the Management of the Retained Foreign Exchange To Enable Enterprises To Regulate the Use of Their Retained Foreign Exchange*

Adjusting the percentage of foreign exchange retention and allowing foreign trade enterprises to regulate their use of retained foreign exchange are a crucial part of the current reform of the foreign trade system. They are important ways to solve the export and foreign exchange earning problems and make up for enterprise losses. If the foreign trade enterprises can temporarily reallocate their retained foreign exchange in a timely fashion to increase export and redress losses, it will have very positive effects on their ability to meet the economic targets. At present, it takes at least several weeks before the retained foreign exchange can be settled and available for use. If we fail to improve this, the enthusiasm of the foreign trade enterprises will be dampened. So, there seems to be a need for the following changes:

(i) Enterprises should set up a special retained foreign exchange (quota) account, similar to a regular bank account, in the State Administration of Exchange Control and Bank of China. The enterprise's share of the actual foreign exchange earning will be deposited in its account each month.

(ii) Foreign exchange owned by enterprises themselves (that is, retained foreign exchange) may be controlled by

enterprises to meet operational needs and may be reallocated according to regulations with few restrictions.

(iii) Enterprises should set up a retained foreign exchange account and record in detail their foreign exchange payment and receipt and regularly verify the account with the Administration of Exchange Control. In this way enterprises will know promptly how much foreign exchange they have and can reallocate them in a timely fashion to solve any export problem.

The above improvements will facilitate the thorough reform of the foreign trade system and gradually shift the foreign exchange retention quota system to a spot exchange retention system and put foreign trade enterprise funds to better use and generate greater enthusiasm among enterprises.

#### *5. Economic Norms Must Be Linked to Material Gains*

Enterprise economic performance must be tied to the workers' material gains in order to effectively mobilize their enthusiasm and make the workers realize that if they fulfill the economic norms and do a good job, they will get a larger bonus; otherwise they will get a smaller bonus. Then we must design a practical, feasible incentive system to guarantee a direct link between hard work and material rewards.

At present, the state has adopted two ways to reward the foreign trade enterprises based on whether they are provincial and municipal companies directly exporting their own goods or prefectural, city-, and county-level enterprises which procure, transfer, and process goods for export. The former group obtains export bonuses based on how well they fulfill the three contract norms: ability to export and earn foreign exchange, export cost, and total profit or loss. The latter group retains a percentage of the total profit.

For enterprise internal business departments which bear no direct relationship to the economic norms, depending on the situation, we can add one or two targets (the stock of merchandise, for example) and link the reward to actual achievements in the same way described above. They will be rewarded for completing their tasks, given extra incentive for over-fulfillment of the norms, and penalized if they fail to meet the target. Comprehensive departments which have no direct bearing on the economic norms should be evaluated according to their functions and the established personal responsibility system. They can be separated into several grades similar to the business sections and be appraised for incentive pay through comparison. The highest grade should rank below a business department which has done fairly well. Enterprises should distribute the entire bonus to the sections at once based on the result of the evaluation, and the sections should evaluate and reward the workers based on their personal performance. The idea is to differentiate the size of the awards so that those who worked more gets more and those who worked less get less.

**Beijing's Progress, Plans for Exporting**  
40060251a Beijing BEIJING RIBAO in Chinese  
24 Dec 88 p 1

[Article by reporter Xi Weihang 1598 0251 5300:  
"Foreign Trade Exports To Exceed \$1 Billion This Year;  
Chen Xitong Presses for Continued and Intensified  
Foreign Trade System Reform Next Year"]

[Text] As of 20 December, Beijing Municipality's 1988 foreign trade exports totaled \$996 million, and are expected to exceed \$1 billion by the end of the year. Beijing Mayor Chen Xitong, speaking at yesterday's session of the Municipal Foreign Economic Relations and Trade Work Conference, said 1988 was a year of significant progress in the city's foreign economic relations and trade activities.

Officials of the Municipal Foreign Economic Relations and Trade Commission revealed at yesterday's meeting that Beijing's foreign trade exports this year will be 14 percent above last year's, and all foreign trade corporations met or surpassed this year's export quotas. Exports by foreign-invested enterprises (FIEs) surpassed the planned amounts three times over. Transactions were concluded for technology exports worth more than \$5 million, \$2 million in revenues were received, and foreign trade purchases totaled 3.43 billion yuan, a 21.9 percent increase over the same period last year.

The outstanding progress in Beijing's foreign trade exports this year was achieved in the overall context of intensified reform. Foreign trade departments and enterprises at all levels implemented the dual-track contract responsibility system within the just recently initiated foreign trade system reform, and contracted quotas out level by level to the various export producing enterprises. Other accomplishments include: formulating provisions to encourage enterprises to increase exports and earn more foreign exchange; successfully implementing pilot projects geared to assuming sole responsibility for profits and losses in the six foreign trade corporations in light industry, handicrafts and clothing; granting foreign trade import-export management authority to a group of qualified producing enterprises; turning control of all prefectural and county foreign trade corporations over to the prefectural and county governments; developing joint management of foreign trade exports, enhancing integration of industry and trade, and devoting major efforts to expanding exports; linking gross wages of the foreign trade enterprises to total exports; expanding the processing of imported materials such that exports of the resultant products accounted for 45 percent of total exports for the year; and opening up foreign exchange regulation markets, with the result that foreign exchange regulation centers handled in excess of \$268 million in foreign exchange from January to October this year. All these accomplishments generated the utmost enthusiasm on the part of the foreign trade enterprises and export producing enterprises, and established a solid foundation for the large increases in Beijing's 1988 foreign trade exports.

It is reported that Beijing's other foreign economic relations and trade activities progressed this year as well: In the January-November period, 123 FIEs were sanctioned, resulting in agreements worth \$378 million, and attracting \$127.5 million in foreign capital; from January to October, 226 foreign agreements were signed for technology imports totaling \$83.51 million; 40 new contracts worth \$8.82 million were signed for foreign contracted projects and labor services cooperation, 200 percent of the annual plan, which contracts have already earned \$5.61 million in foreign exchange; 142 new foreign businesses have set up shop in Beijing, bringing the present total to 1,060, and as of November joint Beijing-foreign enterprise service corporations had earned \$10.16 million in foreign exchange for the state, a 36 percent increase in revenues over the previous year; 10 new enterprises were sanctioned to operate abroad this year, bringing to 40 the number of Beijing enterprises operating abroad. In addition, there has been rapid progress in receiving support from abroad, and in activities related to foreign assistance, international trade promotion, customs, and commercial inspection.

Mayor Chen Xitong pointed out at the conference that subsequent to last year's \$880 million in foreign trade export earnings, this year's total will surpass \$1 billion. This is a result of the common efforts of the industrial and agricultural production units and foreign economic relations and trade personnel throughout the municipality. He asked not only that we not "slide" in our foreign economic relations and trade activities next year, but also that we set new records despite the serious difficulties we face. He said he hoped everyone has a comprehensive and proper understanding of next year's difficulties and positive factors, and will continue to intensify reform of the foreign trade system and strengthen the internal management of foreign trade enterprises, improve the composition of the labor force, exploit our potential, and strive for new successes in our foreign economic relations and trade activity through efforts in administration and consolidation.

Municipal Consultative Committee chairman Wang Xian [3769 2009], Deputy Mayor Wu Yi [0702 0308], and municipal government advisor Zhang Peng [1728 1756] attended the conference.

## POPULATION

**'Four Gratifying Changes' Detailed**  
40060250 Beijing ZHONGGUO RENKOUBAO  
in Chinese 16 Dec 88 p 1

[Article by Liang Jimin 2733 3444 3046: "There Have Been Four Major Changes in China's Population Over the Past 10 Years"]

[Text] Since the 3d plenum of the CPC's 11th Central Committee, China's family planning program has developed to a new stage in its progress from theory to fact.

We have made continuous progress in exploring a Chinese course of family planning. The issue of family planning is intimately tied to the question of economic construction. Our guiding ideology is clear and definite, family planning policies are improving step by step, and our service measures are effective. We have mobilized hundreds of millions of people to voluntary birth control, and as a result there have been four gratifying changes in China's population situation.

**I. We Have Been Effective in Bringing China's Snowballing Population Expansion Under Control, and the Population Growth Rate Has Declined Substantially**

China's population birth rate has declined from 3.365 percent in the 1960's and 2.457 percent in the 1970's to 1.83 percent over the past 10 years. The rate of natural population growth has also dropped from 2.218 percent in the 1960's and 1.623 percent in the 1970's to 1.198 percent in the past 10 years. The mean annual rate of population increase was 2.18 percent in the 1950's, 1.843 percent in the 1960's, and 1.917 percent in the 1970's, and it has dropped to 1.29 percent since 1980. The total birthrate per female has declined from 5.68 in the 1960's and 4.01 in the 1970's to 2.3 since 1980. China has produced about 200 million fewer people in the 17 years from 1971 through 1987 than it would have produced based on the birth level in 1970. Of that reduction, 140 million births were avoided in the past 10 years.

**II. We Are Gradually Making the Transition From Unchecked Population Growth to Planned Population Growth**

Beginning in 1973 population development became part of the state's economic and social development plan, but population planning was truly put into practice after 1980. The population program that was part of China's Sixth 5-Year Plan has been successfully concluded and our total nationwide population figure came in 14 million under plan. Nationwide, in 1979 the ratio of families participating in family planning was 65.1 percent. This ratio increased to 74.2 percent in 1983 and has been maintained at approximately the same level since 1984. Overall there seems to be a growing trend toward family planning. Population growth in the past 10 years has essentially kept on track as planned.

**III. The Age Composition of Our Population Has Begun To Change From Young to Adult**

Based on data from China's 1964 and 1982 censuses and the 1 percent sample survey of the population taken in 1987, the ratio of the population from 0 to 14 years of age dropped from 40.7 percent in 1964 to 33.6 percent in 1982 and 28.8 percent in 1987—declines of 6.8 percent and 11.6 percent, respectively; the ratio aged 15 to 64 rose from 55.7 percent in 1964 to 61.5 percent in 1982 and 65.7 percent in 1987—increases of 6.1 percent and 10.4 percent, respectively; and the ratio aged 65 and over rose from 3.6 percent in 1964 to 4.9 percent in 1982 and

5.5 percent in 1987—increases of 1.4 percent and 2.0 percent, respectively. This age composition indicates that because China made a vigorous effort to launch family planning, the birth rate declined dramatically, and consequently we are beginning to make gratifying progress in transforming the age composition of the population from young to adult.

**IV. People's Attitudes Toward Bearing Children Are Now Changing, Step by Step, From a Preference for Early Marriage, Early Childbirth, Many Children, and Inferior Child Rearing to an Emphasis on Late Marriage, Late Childbirth, Few Children, and Improved Child Rearing**

The average age of first marriage among Chinese women rose from 19.81 in the 1960's to 21.59 in the 1970's and 22.62 in the 1980's. In the cities the average age of first marriage is about two years higher than it is in rural areas. In the past 10 years the level of consciousness about the need for family planning has risen continuously. A major change in childbirth patterns is evident from the children born during those years: The ratio of one-child families, which was 20.7 percent in 1970, 30.9 percent in 1977, and 41.8 percent in 1980, rose to 51.7 percent by 1987. The ratio of two-child families, which was 17.1 percent in 1970, 24.6 percent in 1977, and 26.6 percent in 1980, rose to 31.5 percent by 1987. The ratio of families with multiple children declined from 62.2 percent in 1970 to 44.5 percent in 1977, 31.6 percent in 1980, and 16.8 percent in 1987. As China's economy develops and its level of scientific education and standard of living improve, and as education about family planning is widely disseminated, the old traditional ideas people have about childbearing are changing. The number of children per couple has dropped from 5 or 6 during the 1950's and 1960's to 4 in the 1970's and 2-plus in the 1980's. People are beginning to switch from having many children to having few children. Now that the commodity economy is developing, people are more conscious of prosperity. They are afraid that having more children will affect their ability to work and get ahead, thus lowering their standard of living. Simultaneously, where people once sought only to have more children, now they are widely concerned about producing high-quality children. They are willing to make an investment in intelligence and to enhance the way they nurture and educate their children. The spread of scientific knowledge about family planning has led people to take a strong interest in learning about marriage and childbirth, physiological health, contraception, birth control, and improved childbearing and child rearing. They are longing to have science guide their own marriage and childbearing. People hope that improving childbirth, child rearing, and instruction will make their children healthy and intelligent, and that giving them an excellent education will also make them grow into talented adults.

In the past 10 years China's theoretical understanding of how to resolve the population problem and her practical results in implementing family planning have become



the objects of several substantial new inquiries and developments. From an overall perspective we can see that the weight of our experience is extremely important for guiding future efforts.

*A. The fundamental purpose for implementing family planning is to achieve the general objectives and overall tasks called for in our national economic development strategy. China must institute family planning and control population growth not just on behalf of individual and family well-being, but, most important, on behalf of national prosperity and the well-being of coming generations. State, collective, and individual interests must be intimately linked to each other.*

*B. Population growth must be brought into line with the national plan. China is instituting a planned commodity economy and planned regulation of population reproduction. That is, the production of material goods is planned, as is population growth. We are controlling the "two kinds of production" together, ensuring that population growth is well coordinated with social and economic development to reflect the superiority of Chinese socialism.*

*C. We have formulated a set of current family planning policies that are agreeable both to national conditions and public opinion. These policies are the product of long deliberation and gradual perfection over the years. They address the demands of rural residents and national minorities as much as those of urban dwellers and Han Chinese; the demands of population quality as much as those of population quantity; and the demands of late marriage and childbirth as much as those of birth sequence. The policies are both complete and comprehensive, and they support the effort to free people from old ideas. The ideological line, which is entirely the product of experience, carries through with the ideals of dealing with each case on its merits, classifying guidance, suiting measures to local conditions and to the people involved, and avoidance of "arbitrary uniformity." It entirely reflects China's basic national conditions, and it represents the will of the people. Experience verifies that this policy is fair and reasonable, as well as effective. Consequently, we must adhere steadily to this path for the long term.*

*D. We have taken the initial steps to establish and perfect a network of population and family planning organizations. This is an essential for ensuring that we achieve population control goals and put family planning policies into effect. This network of organizations, which is under the united leadership the government and party committees at all levels, is an entity composed of three parts: the system of government functions and departments, the system of professions and services, and the system of mass organizations. The three kinds of organizational systems are closely linked, and, under the central coordination of government functions and departments, they divide the work and cooperate with*

*each other in one common purpose: the effort to control population growth and improve population quality in China.*

*E. The pervasive intent of China's principle of family planning is to maintain the link between state guidance and popular will and to strive to publicize educational services and birth control technology.*

*F. A major part of the effort to control excess population growth and significantly lower the birth rate is to maintain party leadership, rely on the exemplary leading examples set by party and league members and advanced individuals, marshal the strength of the entire society and its various sectors, fully mobilize the people's initiative, make a clear-cut division of labor, and make a concerted, all-out effort.*

In the past 10 years China has achieved great success in population and family planning efforts, and has begun to make sense of that experience. However, we still face a grave population situation, and it is an enormously difficult task to bring population growth under control. We must comply with the central authorities' instructions and act in the spirit they have intended to further unite our thinking, stabilize policies, control the work, and enhance scientific research. We must continue to learn from experience, and we must expand areas that are advanced and reduce those that are backward. Under the guidance of our general policy of reform and deregulation, we must struggle vigorously for the lofty ideals of population control and family planning in China.

#### **Trends in Sichuan Discussed**

40060249 Chengdu SICHUAN RIBAO in Chinese  
22 Dec 88 p 3

[Article by Zhong Kan 6988 2063, chairman of the Sichuan Province Family Planning Commission: "On Sichuan's Current Population Trends"]

[Text] Sichuan has a larger population than any other province in China and its population trends are of extreme importance not only to the development of Sichuan, but also to that of all China.

In the last 10 years or so and since the 3d plenum of the 11th CPC Central Committee in particular, party committees and governments at all levels throughout Sichuan have consistently given an important status to family planning, upheld the policy of "consistently emphasizing two kinds of production," and done a lot of work and achieved very good results in controlling the population. In the 17 years from 1971 to 1987, Sichuan's birthrate dropped from 40.72 percent to 16.79 percent, its natural population growth rate dropped from 31.21 percent to 10.34 percent, and its extra child and women's birth rates also dropped to relatively low levels. In the 17 years since family planning began, there were only a little more than 23.6 million births throughout Sichuan, or 23

percent of the present population, which has been the focus of national and even world attention. Of course, not all has been smooth sailing and there have been setbacks. Beginning in 1986, as a result of the third population birth peak and a certain slackening of efforts in some places, the number of births rose greatly again, reaching 1.86 million for 1986 and surpassing family planning goals by over 300,000. In 1987, the provincial party committee and government took a series of steps, unified their thinking, stabilized their policies, and controlled the rising population trend, with the number of births in 1987 dropping more than 140,000 over 1986 and population plans being basically fulfilled. In 1988, Sichuan continued to enforce the "Sichuan Province Family Planning Regulations" that were examined and approved by the Provincial People's Congress, its population trends continued to improve, and an encouraging situation appeared in which the late marriage, single birth, and planned birth rates rose while the birth and above-plan excess birth rates fell. From January to September 1988, there were 872,001 births throughout Sichuan, a drop of 163,108 and 15.76 percent over the same period in 1987, the extra child rate fell 0.54 percent, the planned birthrate rose 3.58 percent, and the late marriage rate rose 2.08 percent. Fulfilment of 1988 population plans is within sight.

Saying that the population trends are good does not mean that the population problem is solved. It can only be said that the contradictions between the population and economic and social development have been somewhat alleviated through some 10 years of hard work, the population problem is far from being solved, and the population trends that Sichuan is faced with are still very severe. The severity of the problem can be seen in that, on one hand, we are now in a 13-year population birth peak period in which an average of more than 1.2 million young couples a year reach marriage and childbearing age and, in addition, two-child and more than two-child family births have reached an average of 1.8 to 2 million a year. Even after deducting the number of deaths, Sichuan's population will still reach 120 million by the end of the century and, if we slacken our efforts even a little, it will surpass the control target of 120 million that the State Council assigned to Sichuan. Thus, the disharmonious contradictions between the population and economic, resource, ecological, and social development will become sharper and put more pressure on all areas. On the other hand, along with carrying out the central government's current birth policies and setting up childless female households in villages in all provinces and autonomous regions, family planning work will become harder and require better qualifications. These problems warn us that even with excellent population trends, we must keep clear heads and not be unrealistically optimistic or lower our guard. Any slackening of our efforts will affect our work adversely, cause new population increases, and aggravate our already critical population pressures.

The key to doing a good job of family planning work will be to publicize the "Sichuan Province Family Planning Regulations." The "Regulations" are local ones that were examined and approved by the provincial people's congress, were approved in writing by the CPC Central Committee, are in line with Sichuan Province's conditions and the long-range interests of the vast numbers of people in Sichuan, and have achieved remarkable results in a little over 1 year. There must not be any hesitation or vacillation in enforcing the "Regulations." The contradictions between our birth policies and birth wishes are still very sharp, the desires for early and many births are still very strong, the masses "hope" and the cadres "fear" that the current birth policies will "change," and commonplace ideas and feelings of competition still exist. These problems all deserve our attention and must be solved. The Central Committee Propaganda Department and the State Family Planning Commission recently issued a joint circular calling for all areas to carry out family planning propaganda activities in the winter of 1988 and the spring of 1989. In line with the spirit of this circular, the provincial party committee and government have decided to carry out propaganda activities on New Year's Day and during the Spring Festival focused on publicizing the "Sichuan Province Family Planning Regulations," unify their thinking, stabilize their policies, pay strict attention to their work, create good population trends that are favorable to Sichuan's development, and lay a good foundation for 1989's work. I think that these activities are timely and correct. To unify thinking will mean integrating all ideas with and upholding the "Regulations" wholeheartedly and firmly. To stabilize policies will mean enforcing the "Regulations" to the letter and allowing no unauthorized expansion of birth categories or two birth preferential treatment on any pretext or in any name. To pay strict attention to work will mean eliminating all passive feelings of doubt and vacillation, carrying out family planning work as boldly as in the past, and performing jobs creatively.

Providing good technical service is another important aspect of developing good family planning. Less birth control measures were used and a lot less birth control operations were performed in 1988 and, if attention is not paid to solving this problem, above-plan pregnancies may increase in 1989. Thus, the New Year's Day and Spring Festival propaganda activities must be coordinated with technical service work, the technical policy of "IUDs first and tying tubes second" must be carried out well, IUDs and tube tying should be used by those who need them, diversified contraceptive measures must be adopted and the goal of contraception achieved for those who are unfit or temporarily unfit for IUDs or tube tying, and technical service should be provided before and not after pregnancies occur. Above-plan pregnancies must be discovered and remedied early and above-plan births must be reduced as much as possible.

Faced with good population trends but a grim future, we are full of confidence and firmly believe that as long as

party committees, governments, and the vast numbers of family planning cadres at all levels firmly and persistently pay great attention to Sichuan's population problem and continue to emphasize family planning work, the population problem that has restricted and affected Sichuan's development will be solved and good population trends will be realized soon.

### AGRICULTURE

**1988 National Farm Product Procurement**  
40060312b Beijing JINGJI RIBAO in Chinese  
3 Feb 89 p 1

[Summary] In 1988 the value of farm products procured by the commercial system totaled 130.67 billion yuan, a

3 percent decrease from 1987. By the end of December, the commercial system procured 81,851,000 tons of grain, a 2.3 percent decrease from 1987; 2,164,000 tons of edible oil, a 22.5 percent decrease; 3,319,000 tons of cotton, a 9.3 percent decrease; 69,154,000 head of live hogs, a 15.7 percent decrease; 646,000 tons of fresh eggs, a 6.1 percent decrease; and 515,00 tons of jute and ambari hemp, a 24.9 percent decrease.

**Sichuan Tobacco Procurement**  
40060312c Chengdu SICHUAN RIBAO in Chinese  
9 Jan 89 p 1

[Summary] In 1988 Sichuan Province procured 114 million kilograms of flue-cured, burley, and sun-cured tobacco; income of tobacco farmers was 305 million yuan, a 160 percent increase over 1987.



**Lin Yang-kang's Political Ambitions Noted**  
40050209 Hong Kong KUANG CHIAO CHING [WIDE  
ANGLE] in Chinese No 195, 16 Dec 88 pp 36-38

[Article by Liu Shu-ying 0491 6615 5391: "Is Lin Yang-kang Going To Challenge Li Teng-hui's Throne?"]

[Text] During an interview at the end of 1988, Lin Yang-kang (current standing committee member of the KMT Central Committee and president of the Judicial Yuan) did not deny at all the fact that he was interested in running for "president" of Taiwan and that he had the "daring ambition" of competing with Li Teng-hui.

The Taiwan area has not entered the stage of direct election. However, should a scenario similar to the United States election appear, what kind of candidate do we really need to bring about a high tide of election? The "Federation of National Assemblymen" recently considered reducing the number of signatures required for presidential nominees to 50. It looks like that something mysterious has been cooked up for the general election of the next "president" of Taiwan in 1990.

Most people believe that the greatest threat to Li Teng-hui's position as a "president" is Lin Yang-kang, not Chiang Wei-kuo and Li Huan. Lin Yang-kang speaks Mandarin with a Taiwanese accent. Although his pronunciation is not perfect, he looks sincere when he speaks and he enunciates each and every word slowly. Not only do Taiwan natives love him, but compatriots from mainland China also find him amiable. Unlike him, other high-ranking officials put on a stern bureaucratic expression and talk with a mixed accent, making it virtually impossible for people to understand without looking at subtitles.

Lin Yang-kang studied in Japan and has a fairly good relationship with the Democratic Progress Party. Eloquence is not the only manifestation of his experience. The wit and political training he displayed while he presided over the "assembly" show that he deserves to be called one of the best in the KMT. The 13th KMT Congress, which was held in July 1988, was chaired every day by a different person at the "central level." Many delegates attending the meeting said that on the day Lin Yang-kang was the chairman, he created one climax after another and there was not a moment of awkward silence at the meeting. He was particularly good at maintaining the order of the meeting. With a few words he could make those delegates, who gave lengthy speeches and paid no attention to the time, cut short their speeches. And he would not make them feel embarrassed at all because Lin Yang-kang's remarks were worded tactfully. His sense of humor has always been famous and known to all circles for a long time.

His popularity is not limited to these fields. In July 1988 he won the election of KMT Central Committee members with the fourth highest vote. He and three others, Li

Huan, Sung Chu-yu [1345 2806 3842], and Wu Po-hsiung [0702 0130 7160], were considered most popular, reflecting his status within the KMT. Back in December 1979 at the 4th plenum of the 11th KMT Central Committee, Lin was elected as a standing committee member of the KMT Central Committee with the fourth highest vote cast by the members of the KMT Central Committee. He was not nominated by the chairman and then voted by a show of hands. The comparison of the previous and current events shows that Lin Yang-kang's unique charm is indeed a force that cannot be ignored in any open election.

Lin Yang-kang has a definite appeal within the KMT and abundant experience at the grassroots level. Starting out as a clerk at the civil administration office of the Nantou County Government of Taiwan, Lin worked hard for 10 years before he was promoted to director of the office. Later he was transferred to work as the chairman of the Yunlin County KMT Branch. He did not begin to show his talent until he returned to Nantou to run for county mayor. When Hsieh Tung-min first became the governor of Taiwan Province as a native Taiwanese, Lin was recruited to serve as the "director of the Construction Department" of Taiwan Province before he could even complete his term as county mayor. Later he became the mayor of Taipei City and the Governor of Taiwan Province which he "turned over" to the current "president" Li Teng-hui. In other words, Lin was ahead of Li during this period of their political careers. However, later "the situation was reversed." Lin Yang-kang served first as "the Minister of Interior" and then as vice president of "the Executive Yuan" while Li Teng-hui became "the Vice President." In early 1987 Lin Yang-kang took up the post of the president of the "Judicial Yuan." In January 1988 Li Teng-hui became "the President" after Chiang Ching-kuo's death and Lin Yang-kang happened to be the witness of the swearing in. Shortly after that, Li Teng-hui officially became the chairman of the KMT and embarked on the great reshuffle of the cabinet. As a result, his power has been growing continuously.

Unlike traditional bureaucrats who tried to suppress the public with their prestige and power, Lin Yang-kang is tactful and good at handling numerous knotty administrative problems. For instance, Lin Yang-kang has encountered even the biggest headache of administrative departments in Taiwan—the self-salvation movement—which has also exposed the dilatory practices of administrative departments. He has accumulated quite a few experiences in this regard. The relocation issue of the Erhchung Sluice is a part of the Taipei Flood Control Plan adopted in 1973. The acquisition of land was delayed for a long time because it involved the relocation of local residents who originally occupied the land. In view of this, Lin Yang-kang proposed, during his term as the governor of Taiwan, the "build first and demolish later" principle. He thought that doing a good job in relocating residents could help the progress of the construction project. However, his superior—"the Executive Yuan"—insisted on demolishing first and building

later for it thought that doing so would inevitably slow down the current progress and make it impossible to guarantee that flood would not occur during the relocation period, resulting in a series of protests from the people of Wuku and Chouhou villages.

At first, administrative departments considered such protests as the activities of troublemakers and not worth noticing. Finally, they got out of hand and it took two terms of office—Li Teng-hui and Chiu Chuang-huan [6726 0482 3562]—to put an end to this problem by implementing the same old principle put forward originally by Lin Yang-kang. Due to the slow process of policy making at the time, people began to present petitions to "the Legislative Yuan" and "the Executive Yuan" during the period between the summer of 1980 and 1984 (Lin Yang-kang left the provincial government at the end of 1981). The crux of the 4 year-old problem was still the village relocation program which had run into one trouble after another. Li Teng-hui, who replaced Lin Yang-kang, once decided to relocate the villagers to the Choutzuyang District, which was later found out to be the flood plain primary control area where no construction is allowed according to law. As a result, the village relocation plan reached another deadlock. Since the leaders of the Taiwan Provincial Government were replaced, concerned officials often emphasized that they "were not familiar with what their predecessors had done" at the question and answer sessions of the Taiwan Provincial Assembly. They even argued fallaciously that "build first and demolish later" was a principle, not a promise. All this has contributed to the distrust of the public. It was said that Lin Yang-kang later commented that things would have probably been much easier if the higher level did not have this notion about "troublemakers."

Take the controversial Lishan fruit tree issue for another example. In order to prevent indiscriminate reclamation from silting up the Chengtechi Reservoir, most people favored felling the fruit trees. Lin Yang-kang had to face this thorny issue as soon as he took the office of the governor of Taiwan Province in June 1978. So he went to the site to find out what was really going on and then suggested that instead of felling the fruit trees, other forest trees be planted among them to alleviate this problem through natural elimination. Because Lin Yang-kang, who was raised on a farm, believed that those fruit trees, which were over 10 years old and had formed a forest with deep roots, could serve as plant cover and help water and soil conservation. This proposal, however, misled people to think that he had violated the original resolution of "the Executive Yuan." Lin Yang-kang was very upset after learning such a response. But facts showed that later numerous people and policemen had to be called upon just to fell 20 hectares of fruit trees and that no one has tried to fell trees ever since.

In a feudal society, rulers and subjects belonged to two different classes—upper and lower. Under a bureaucratic administrative system, the ruling class always felt justified in whatever they did, but the methods and means they

used to solve problems were often incompatible with the reality, thus raising unexpected difficulties. Since Yu Kuo-hua, who was specialized in financial and economic issues, took the office of "the president of the Executive Yuan" in June 1984, he has not made any "contribution" other than insisting on hugging foreign exchange reserves. His shortcoming has often been not knowing what to do in the face of the new trend of political and economic reforms. This tendency has become more conspicuous and serious since the establishment of the Democratic Progress Party in September 1986. Rumors that are now going around in Taiwan such as "civil rights are unclear" and "self-salvation movement is popular" can be seen as an exposure of the weakness and inefficiency of the KMT administrative departments. In the past, whenever there was a talk about the sensitive subject of cabinet reshuffle, some people would mold public opinions to encourage Lin Yang-kang to run for important positions. They liked him because he was a native Taiwanese who had a fairly good relationship with non-KMT personages, full administrative experience, and sufficient political studies (he graduated from the Department of Political Science of the Taiwan University). Many sequelae of past financial and economic ministers such as industrial pollution, oppressed trade unions, and seriously obsolete public facilities cannot be solved without a higher level of knowledge. This is another reason why some people wanted Lin Yang-kang to come out to fulfill his ambition.

According to the KMT's traditional practice, administrative departments were fully responsible for policy decisions concerning financial and economic affairs because financial and economic ministries were the characteristics of the administrative system and it was seldom required for them to consult with the party. But after the shocking incidents caused by Kuo Wan-jung, "the Minister of Finance," who declared the restoration of tax levies on stock exchanges in the Fall of 1988, administrative departments were required to consult repeatedly with the party, thus firmly establishing the principle that administrative and party organizations must be first coordinated in handling similar policy decisions in the future.

The "honeymoon period" of 1988 is now over for Li Teng-hui. The cabinet reshuffle in July 1988, the grand military review in October, and other similar "great events" have gradually revealed his work style and characteristics. For instance, when his close friend Kuo Wan-jung took the office of "the Minister of Finance," everybody was talking about it. When he appointed people, Li Teng-hui put great emphasis on "better education" and sharply lowered the average age, but his choices have invited criticism from all fields. For instance, Kuo Wan-jung, "the Minister of Finance," tried to keep stock market prices down by adopting a measure that was too drastic, resulting in the worst crash of Taiwan's stock market. For another instance, the

settlement of a factory closedown in the Shihhua District of Linyuan County set a bad precedent by offering compensations to individual residents. This also indicated that concerned officials had the shortcoming of inadequate administrative experience. As the trend of political and economic reforms develops at a high speed, similar incidents will definitely increase, not decrease, in the future. Such problems cannot be alleviated or solved without sophisticated political art and administrative skills.

Though uninvolved in the administrative system in recent years, Lin Yang-kang has frequently made suggestions as a "standing committee member" of the KMT Central Committee, which demonstrated his political belief. For instance, in the Fall of 1987, after Chiang Ching-kuo, who was still living at the time, announced the policy of allowing people to visit their relatives in the mainland, Lin Yang-kang immediately expressed at the meeting that since many Taiwan compatriots still stayed in mainland China, it seemed proper for us to consider also the question of how to enable them to come to visit their relatives in Taiwan. Chiang Ching-kuo did not decide on the spot, but a few days later he called Lin Yang-kang alone to the "presidential building" and praised him for the motives and intention of his proposal. During the conversation, Chiang Ching-kuo also

requested that Lin ask whatever question he would have in the future. Chiang Ching-kuo said that the greatest pain he had was the inability to make personal contact with the people due to a foot ailment and that the mental distress caused by such estrangement hurt more than physical pains, etc, which should be considered as words from the bottom of Chiang Ching-kuo's heart before his death.

Recently the KMT has gradually eased its policy to allow Taiwan compatriots staying on the mainland to visit their relatives in Taiwan. The KMT has also set up a KMT "group for mainland affairs" with Ma Shu-li [7456 2885 4409] as its convener. Lin Yang-kang, however, was not in it, showing that it was "carefully" arranged by Li Teng-hui.

If the Taiwan area holds an open election, Lin Yang-kang's campaign experience, administrative background, political belief, plus "Lin Yang-kang's charm" are bound to create one climax after another. If open election is out of reach, the actual nomination of Lin Yang-kang during the "presidential election" carried out by "national assemblymen" will make the election more exciting. At that time, Li and Lin would be able to fight hand-to-hand in public and find out who the winner is. Its future influence on Taiwan will be noteworthy.



**Liu Chao-chia Discusses 'Mainstream Proposal'**  
40050182b Hong Kong TA KUNG PAO  
in Chinese 8 Dec 88 p 8

[Unattributed interview with Liu Chao-chia: "Liu Chao-chia Critiques the Mainstream Proposal: It Is More Liberal Than Expected; Overall, It Is Too Liberal in the Short Term, Too Conservative in the Intermediate Term, and Too Radical in the Long Term"]

[Text] Liu Chao-chia, professor of sociology at the Hong Kong Chinese University and director of the Hong Kong Research Center, says that the content of the "mainstream proposal" passed by the political subgroup of the Basic Law Drafting Committee ought to be considered quite natural if one takes into account the various factors affecting Hong Kong. The proposal, he says, is more liberal than he imagined it would be a year ago, yet its overall problems proposal are that it is too liberal in the short term, too conservative in the intermediate term, and too radical in the long term. He hopes that the plan that is ultimately approved will be more flexible.

Professor Liu noted that the factors affecting Hong Kong include the relationship between the central government and the Special Administrative Region; changes in the global economic environment; Hong Kong's political, social and economic organization; the political expectations and educational level of the people of Hong Kong; cleavage among the domestic political forces of the colony; the political orientations of different social strata; the distribution of political power in contemporary society; short- and long-term socioeconomic problems facing the colony; and the state of development of the political leadership strata. Taking these factors into account, Professor Liu believes that the overall approach of the mainstream proposal, including its general principles and its objectives, is quite natural.

Professor Liu points out that this fact shows that whenever one attempts to design a blueprint for a political system, one comes under pressure produced from all sorts of external and internal contradictions and thus must attempt to harmonize these contradictions. Thus any blueprint that for a political system necessarily must contain a certain amount of compromise.

From the prospective of a scholar, Professor Liu believes that it is best if blueprints for political systems contain much flexibility. However, the mainstream proposal, owing to the fact that it is constrained by certain time tables, was designed too liberally for the short term. An example of such time tables is the fact that some Legislative Council members will be returned through direct election in 1995, when Hong Kong is still under the rule of the British colonial government. But both before and after 1997 many problems will arise that only a strong government will be able to handle them. So far, Hong Kong's "elites" have showed very little interest in political participation. Thus the question arises: Will the colony produce political organizations or leadership with sufficient power to control the situation? It is possible

that the British colonial government may have trouble maintaining control.

For the intermediate term, there is no need to wait until 2011 to hold a referendum on whether or not to establish a system of universal suffrage. For in fact discussion of the political system can be conducted throughout the first decade after 1997. This discussion should not seek to set things in concrete but merely to make certain judgments based on changes in various factors at the time. At the current time, it is impossible to foretell what many of these factors will be like in the future, so it is very dangerous to force a decision that would cast future socioeconomic development into stone.

For the long term, however, the mainstream proposal is too radical. This is because if a universal referendum is held in 2011 to decide on the implementation of a complete universal suffrage beginning in 2012, the answer that will be returned will be approval, unless something unexpected happens. If major dramatic changes occur in the years running up to and following 2012, those changes will not be limited to just the question of what electoral methods should be employed but will have a very broad impact and may even severely buffet the political regime. Professor Liu did not dare to speculate on what the consequences of such major changes might be or how well society would be able to cope with them.

Professor Liu believes that proposals on the future political system would be better if they are a little more conservative in the short term and if they provide for discussion and review during the intermediate term to decide whether or not to speed things up. This approach would help avoid problems of maintaining control during the short term, political turmoil in the long term, and instability during the intermediate term as a result of the short and long term effects on that term.

**Basic Law 'Mainstream Proposal' Defended,  
Compared With Others**  
40050182a Hong Kong MING PAO  
in Chinese 24 Dec 88 p 2

[Unattributed MING PAO report: "The Basic Law Consultative Committee Points Out That the Mainstream Proposal Combines the Features and Spirit of Most Other Proposals: Ultimately It Will Provide Hong Kong With a Truly Democratic and Open Political System"]

[Text] The secretariat of the Basic Law Consultative Committee recently completed a report entitled "A Comparison of the Mainstream Proposal and the Other Proposals Concerning the (Post-1997) Political System (of the Hong Kong Special Administrative Region)." The report concludes that the mainstream proposal combines the features and spirit of most other proposals,

- provides for a moderate and steady advance toward democracy, and will ultimately give Hong Kong a truly democratic and open political system.

"Does the mainstream proposal go beyond the range covered by the various other proposals, or is it a true compromise that charts a middle course between the others?"

The Basic Law Consultative Committee report compared in tabular form the major features—such as the mechanism and time tables governing the transition from indirect election to universal suffrage for the chief executive, the proportion of legislators to be returned through universal suffrage, and the like—of the mainstream proposal against the recommendations of the other proposals and concluded that the mainstream proposal falls within the range covered by the other proposals and by no means goes beyond them. The specifics of the report are as follows. With the exception of the Group of 190, which has insisted that the chief executive be elected through universal suffrage beginning with the first term, all the other proposals advocate indirect election during the first term. As to the proportion subject to election through universal suffrage of the members of the body that will select the chief executive, the proposals range from 25 to 75 percent; the mainstream proposal advocates 25 percent.

- Proposals regarding the type of body to be used to select the chief executive including an electoral college, a nomination team, a recommendation and selection committee, and an election committee. Most proposals favor the electoral college, but the mainstream proposal advocates the election committee. (See following table)

#### Proposals To Indirectly Select the Chief Executive During the First Term

Body	Electoral College	Nomination Team	Recommendation Committee	Election Committee
Proposals				
Group of 38		X		
Group of 89	X			
Fraternity of College Graduates		X		
Worker Association			X	
Federation of Industry & Commerce				X
Outstanding Youth	X			
Chinese Association	X			
The HK Progressive Society	X			
Association of Hong Kong People	X			
Mainstream	X			

With the exception of the Group of 190 and the Fraternity of College Graduates, the other proposals call for direct election of the chief executive beginning somewhere from the second to the fifth terms. The mainstream proposal, on the other hand, advocates that the question be decided by a universal referendum during the third term, effective beginning the fourth term. This recommendation no means goes beyond the range covered by the other proposals and can only be said to be on the conservative side. (See following graphic)

#### Proposals Concerning When the Office of Chief Executive Should Be Made Elective Through Universal Suffrage

Term; Proposal; Mechanism	1st Term	2d Term	3d Term	4th Term	5th Term	No Time Limit
Time Table:	Fraternity of College Graduates	Group of 38		HK Progressive Society		
	Group of 190	Worker Association	Outstanding Youth			
			Federation of Industry & Commerce			
Initiating Point Representatives of all the people				Group of 89 Mainstream		

The various proposals regarding the proportion of the members of the first legislature to be returned through direct, universal suffrage range from 25 to not less than 50 percent. The mainstream proposal recommends 25 percent. (See following table)

**Proposals Concerning the Proportion of Legislators To Be Returned by Universal Suffrage During the First Legislature**

Proposal	Proportion To Be Elected through Universal Suffrage (%)
Group of 89	25
Federation of Industry & Commerce	25
Mainstream	27
Chinese Association	30
Association of Hong Kong People	30
Outstanding Youth	33.3
Group of 38	33.3
HK Progressive Society	33.3
Worker Association	40
Fraternity of College Graduates	40
Group of 190	>=50

Proposals regarding the proportion for the second legislature range from 25 to 60 percent. The mainstream proposal calls for 38.5 percent (and for 50 percent during the third term). (See following table)

**Proposals Concerning the Proportion of Legislators To Be Returned by Universal Suffrage During the Second Legislature**

Proposal	Proportion To Be Elected through Universal Suffrage (%)
Group of 89	25
Chinese Association	30
Association of Hong Kong People	30
Outstanding Youth	33.3
The HK Progressive Society	33.3
Group of 38	33.3
Mainstream	38.5
Federation of Industry & Commerce	40
Worker Association	40
Group of 190	>=50
Fraternity of College Graduates	60

**The Recommendations of the Mainstream Proposal Do Not Exceed the Range Covered by the Other Proposals**

The Basic Law Consultative Committee report drew the following conclusions. On the basis of the committee's analysis and comparison of the other proposals and the mainstream proposal, the committee concluded that the mainstream proposal combines the features and spirit of most of the other proposals.

The common feature of the other proposals is that they favor a sequenced, progressive and gradual move toward democracy. Their guiding spirit is to provide Hong Kong with a truly democratic and open political system. The mainstream proposal is based precisely on these same two considerations.

The recommendations of the mainstream proposal were drawn up on the basis of an agreement reached at the Wulin Conference: The chief executive is to be elected (by Hong Kong) and appointed by the Central People's Government. The election is to be democratic and to be carried out by a broadly democratic election committee. And the people will decide whether or not the chief executive shall be elected through popular suffrage beginning from the fourth term. Candidates for the chief executiveship are to be placed into nomination only after they receive support from at least 100 members of the election committee—a very democratic nominating procedure. The legislature initially will be filled through a mix of methods, with universal suffrage gradually growing in importance, the process heading in the direction of complete democracy, and the people of Hong Kong deciding in the end whether or not all members of the fifth legislature should be returned through universal suffrage.

While all the proposals share common features and spirit, they differ in terms of the rate at which they wish to see democratization proceed.

In this respect, the mainstream proposal provides for a moderate and steady advance toward democracy. (See following graphic)



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